

CAYMANAS SPECIAL ECONOMIC ZONE

Feasibility Study Document



ACKNOWLEDGMENT

This report was prepared by Andrea Erdmann, independent consultant for the Ministry of Industry, Investment, and Commerce of the government of Jamaica. Its principal objective is to provide advice to the government of Jamaica to make well-informed decisions on how best to implement the Caymanas Special Economic Zone and structure its new SEZ regime. The report was funded by the Public-Private Infrastructure Advisory Facility (PPIAF), a multi-donor technical assistance facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement (for more information see www.PPIAF.org).

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List of Abbreviations, Acronyms, and Initialisms

3PL	Third party logistics
AIIE	Aqaba International Industrial Estate
APP	Panama Pacifico Special Economic Area Agency
ARI	Average recurrence interval
ARI	Interoceanic Region Authority
ASEZ	Aqaba Special Economic Zone
ASEZA	Aqaba Special Economic Zone Authority
BOT	Build-operate-transfer
BPO	Business process outsourcing
Blvd.	Boulevard
CAD	Computer-aided design
CARICOM	Caribbean Community
CBP	Customs and Border Protection
CEDA	Caymanas Estates Development Area
CEDP	Caymanas Estates Development Plan
CEZ	Caymanas Economic Zone
CHEC	China Harbour Engineering Company
CSEZ	Caymanas Special Economic Zone
DBJ	Development Bank of Jamaica
DC	District of Columbia
EIA	Environmental impact assessment
Eg.	<i>Exempli gratia</i> [for example]
EPZ	Export Processing Zone
ERR	Economic rate of return
Etc.	<i>Et cetera</i> [and other things]
FCG	Foundations for Competitiveness and Growth (Project)
FCJ	Factories Corporation of Jamaica
FSMA	Food Safety Modernization Act
Ft.	Foot
FTZ	Foreign Trade Zone
GCT	General Consumption Tax
GLHI	Global Logistics Hub Initiative
Ha	Hectare
HAACP	Hazard Analysis and Critical Control Points
HCSEZ	Higher Corporation for Special Economic Zones
ICAD	Industrial City Abu Dhabi
ICT	Information and communications technology
IDB	Inter-American Development Bank
le.	<i>Id est</i> [that is, in other words]
IFC	International Finance Corporation

ABBREVIATIONS, ACRONYMS, AND INITIALISMS

IP	Industrial park
IRR	Internal Rate of Return
ISO	International Standards Organization
ISP	Internet service provider
IT	Information technology
IXP	Internet exchange point
J\$	Jamaican dollar
JAMALCO	Jamaica Aluminum Company
JAMPRO	Jamaica Promotions Corporation
JCAA	Jamaica Civil Aviation Authority
JICA	Japan International Cooperation Agency
JIEC	Jordan Industrial Estates Corporation
JPS	Jamaica Public Service
JRC	Jamaica Railway Corporation
KBC	Kinhbac City Development Shareholding Corporation
KCT	Kingston Container Terminal
KFZ	Kingston Free Zone
Km	Kilometer
KV	Kilovolt
L&R	London and Regional
LLC	Limited Liability Corporation
Ltd.	Limited
M	Meter
Mg/L	Milligrams per liter
MJTD	Myanmar Japan Thilawa Development Company Limited
Mm	Millimeter
MMSTD	Mitsubishi, Marubeni, Sumitomo Thilawa Development Company Limited
MSME	Micro, small, and medium enterprises
MTSH	Myanmar Thilawa SEZ Holdings Public Limited
MV	megavolt
MVA	Megavolt ampere
NAFTA	North America Free Trade Agreement
NEPA	National Environment and Planning Agency
NWA	National Works Agency
NWC	National Water Commission
OSSC	One-Stop Service Centre
PAOJ	Port Authority of Jamaica
PBI	Parsons Brinckerhoff International
PEZA	Philippine Economic Zone Authority
PIOJ	Planning Institute of Jamaica
PPIAF	Public-Private Investment Advisory Facility
PPP	Public-private partnership
PSOJ	Private Sector of Jamaica
RFP	Request for proposal

ABBREVIATIONS, ACRONYMS, AND INITIALISMS

SEZ	Special economic zone
SFB	Standard factory building
SME	Small and medium enterprise
SPV	Special purpose vehicle
TEU	Twenty-foot equivalent unit
TNC	Transnational corporation
TSEZ	Thilawa Special Economic Zone
TSEZMC	Thilawa Special Economic Zone Management Committee
UDC	Urban Development Corporation
U.S.	United States
US\$	United States dollar
USAID	United States Agency for International Development
VAT	Value-added tax
WRA	Water Resources Authority
WTO	World Trade Organization
Yr	Year

EXECUTIVE SUMMARY



Executive Summary

This report examines the Caymanas Special Economic Zone (CSEZ) project in the context of Jamaica's Global Logistics Hub Initiative, and constituted under the country's new special economic zone regime. The report: 1) identifies best practice requirements for the new SEZ regime and the individual CSEZ project development, based on initial analysis and market feedback; 2) points out issues and problems to be addressed, and the type of support that might be required of the government of Jamaica; and 3) lays out a comprehensive, time-bound "roadmap" with responsibilities and timelines associated with each recommended action.

1. Introduction

This report was funded by the Public-Private Infrastructure Advisory Facility, a multi-donor technical assistance facility of the World Bank. It is designed to provide strategic advice to the government of Jamaica to allow it to make well-informed decisions on how best to implement the Caymanas Special Economic Zone (CSEZ) using private and public-private partnership contracting mechanisms.

The Government of Jamaica is aggressively pursuing its Global Logistics Hub Initiative (GLHI), a strategy to leverage Jamaica's geographical location to position itself as a global leader in cargo transshipment and logistics services, along the likes of Singapore, Rotterdam, and Dubai. The Caymanas Special Economic Zone will be one such project within the greater GLHI. It is anticipated that many of the individual GLHI developments, including the CSEZ, will be implemented under Jamaica's new Public-Private Partnership Programme.

The analysis included three areas of investigation: 1) assessment of the Caymanas Special Economic Zone project; 2) Jamaica's new special economic zone regime; and 3) preliminary market analysis of developers and SEZ users. The

The government of Jamaica desires to modernize its economic zone regime by enacting legislation to repeal the Export Free Zone Act and establish special economic zones (SEZs). The Caymanas SEZ will be one of the first zones developed under the new regime. The Ministry of Industry, Investment, and Commerce has charged the SEZ Steering Committee with designing the specifics of the new SEZ regime and drafting the new SEZ Law, which must be enacted by Parliament by December 31, 2015.

2. Primary Findings

assessments undertaken for this report are not substitutes for conducting a thorough feasibility study, which requires more detailed site analysis, infrastructure assessment, demand forecast, master plan, costing, and financial analysis.

1. Assessment of the Caymanas Special Economic Zone Project

The CSEZ site is located in St. Catherine Parish between Kingston and Spanish Town. This study identified several issues, which the government of Jamaica must address before the site can be considered “development-ready”. The include: 1) drainage problems; 2) potentially unreliable power supply; 3) current lack of water to supply zone; and 4) no existing wastewater treatment capacity.

CSEZ site location. The site proposed for the CSEZ is located along Mandela Highway in St. Catherine Parish, between Kingston and Spanish Town. The site is approximately 1,400 acres (566.56 hectares), and divided by Mandela Highway into a 200-acre (80.94-hectare¹) “North Site” and 1,200-acre (485.62-hectare) “South Site”. (See Figure ES-1, on the next page.) The CSEZ site is located on lands that have historically operated as a sugar plantation since the 18th century. The land is wholly owned by the Urban Development Corporation, and is included in its Caymanas Estates Development Plan as “Light Industry/Manufacturing” (North Site) and “Enterprise Zone” (South Site). The Urban Development Corporation has committed the 200-acre (80.94-hectare) “North Site” to Factories Corporation of Jamaica to develop as an economic zone, though no transaction has yet taken place.



Figure ES-1 Map of proposed site for the CSEZ. Site boundaries are outlined in red.

Drainage. There is a major risk of flooding within portions of the CSEZ site. Specifically flooding occurs in the region of the Mandela Highway/Fresh River crossing, regions south

¹ Actual area as surveyed on June 30, 2010 by Courtney P. Fletcher, Commissioned Land Surveyor, for UDC.

of the highway, and areas contiguous to the Salt River / Duhaney River discharge. The regulating agencies have indicated that the following must be addressed prior to approval for full-scale development of the CSEZ: 1) Fresh River channel dredging to remove growth and blockages accumulated over time; 2) Mandela Highway crossing improvements such as raising the roadway and widening the bridge on the northern lanes; 3) Duhaney River channel dredging to remove growth and blockages; and 4) Protect Southern Wetlands—need to retain wetlands to mitigate flooding effects. Further drainage and hydrology analyses are required, including design and civil works construction of flooding remediation measures.²

Power. A feasibility study is required to estimate the power demands from the Caymanas Special Economic Zone. Jamaica Public Service (JPS) stipulates that if demand is greater than 20MW, a direct line is required into an electrical substation. Based on existing infrastructure, power for the CSEZ could potentially come from one of two electrical substations—Doheny or Tredegar—operated by JPS. Power lines that currently cross the CSEZ site feed directly into the Doheny Substation to the east of the zone. However, Doheny is not a favored substation, according to JPS. The single bus station has low reliability because a failure of a single circuit breaker or a bus failure causes loss of the entire substation, and maintenance switching can complicate and disable some of the protection schemes and overall relay coordination. The more reliable Tredegar Substation is located five miles to the west of the CSEZ site in St. Catherine’s Parish. It operates with 230 MVA interbus transformers. Though Tredegar is far more reliable than Doheny, it is much more difficult to install new infrastructure lines into the substation because of the dense residential population in the area.

Water. A feasibility study is required to determine the demand for water in the CSEZ. The National Water Commission (NWC) has installed a water pipeline across the Caymanas area. Though new lines are in place, the current water *supply* from NWC is not sufficient to meet the current and future demands of the CEDA, including the CSEZ. NWC has identified a property for a new water treatment plant west of Caymanas, but plans have been taken off the books due to competition for water resources from the National Irrigation Commission.

Wastewater Treatment. The Soapberry Wastewater Treatment Plant borders the CSEZ to the south. By 2016, the plant will be operating near its current capacity of 20 million imperial gallons (90,921.8 cubic meters) per day. Soapberry has room for expansion of two additional modules, which could increase the plant’s daily capacity by an additional 40 million imperial gallons (181,843.6 cubic meters). There are currently no plans, however, to expand Soapberry, and expansion is not in the capital budget for next year.

² The Terms of Reference (TOR) for the Caymanas Special Economic Zone Feasibility Study includes a hydrology study and design and costing of flooding remediation measures. The TOR is included in Annex 3 of this report.

Development scenarios for the CSEZ. There are numerous potential private and public-private partnership development scenarios for the CSEZ. These include, but are not limited to the following:

- **Joint venture with Factories Corporation of Jamaica.** This is the FCJ's current intended development scenario. CSEZ land would be purchased from Urban Development Corporation by Factories Corporation of Jamaica, and developed as a joint venture through a special purpose vehicle with private sector partners. This scenario maximizes the government of Jamaica's capital investment risk, maintenance risk, replacement risk, and collection risk. Though this scenario represents a positive step toward involving private sector equity in the development of SEZs, it does totally move the government away from public development of SEZs.
- **Long-term lease concession with private developer, with no financial contribution from government.** CSEZ land would be leased through a concession contract to a private sector developer chosen in a competitive bidding process, with specific terms and obligations for the developer. The government of Jamaica would commit no financial participation in project other than off-site infrastructure upgrades. The government would receive a percentage of zone revenue, as per the concession agreement.
- **Long-term lease concession with private developer, with limited financial contributions from government.** CSEZ land would be leased through a concession contract to a private sector developer chosen in a competitive bidding process, with specific terms and obligations for the developer. The government of Jamaica would commit resources for off-site infrastructure connections, as well as low-interest financing, and/or other financial contributions, as specified in the concession agreement. The government would receive a percentage of zone revenue, as per the concession agreement.
- **Long-term lease or sale of land to private developer, without a concession agreement.** CSEZ land would be leased or sold to a private sector developer, whether chosen in a competitive bidding process or not. The government of Jamaica would commit no financial participation in project, other than off-site infrastructure upgrades. The private developer would carry 100 percent of the development and revenue risk for project. The government would receive a lease fee from developer.

Necessity for a feasibility study for the CSEZ. A feasibility study is required as the next step to move forward with the CSEZ project. The study is imminently required for several reasons: 1) this initial assessment of the CSEZ project has uncovered several challenges with the project site, including drainage issues and lack of adequate off-site power,

water, and wastewater treatment capacity. These must be fully addressed in a feasibility study before *any* developer can construct and operate the zone; 2) Too often, governments fail to select the optimal public-private partnership structure ahead of the developer procurement stage,

making it difficult to adjust the risk or responsibility once the project has started. A feasibility study will find the optimal ownership of risk based on the capacity and appetite of the government and private sectors to take it on; and 3) a feasibility study will position the GoJ in the “driver’s seat” of the project— understanding all the parameters, limitations, challenges, and opportunities afforded by the CSEZ site and project. This will allow the GoJ to come to the negotiating table for

meaningful discussions and engage the private sector developer as an equal partner in the development process. Annex 3 of this report contains a TOR for a feasibility study for the Caymanas Special Economic Zone. The TOR represents international best practices, and was designed and drafted for the specific context of the CSEZ project. It is recommended that the full TOR be included in an RFP, without the removal or postponement of any of the tasks.

2. Jamaica’s New Special Economic Zone Regime

The government of Jamaica wants to transform the country into a global logistics hub. This cannot be accomplished, however, unless the current regime for establishing and operating SEZs is modernized. The government must address a number of issues before it can address specific options for developing the CSEZ as a private or public-private partnership venture. The cornerstones of the necessary supportive and enabling framework are the SEZ Law, regulations, and associated institutions created to administer and regulate the new regime. An SEZ Steering Committee is overseeing the design of the new SEZ regime, including the drafting of an SEZ policy

White Paper and the new SEZ Law, which must be enacted by Parliament by December 31, 2015. The World Bank’s FCG Project is funding a legal drafting expert to assist with the drafting of the SEZ Law and regulations.

The SEZ White Paper lays out the goals for Jamaica’s SEZ regime, specifically in the context of the Global Logistics Hub Initiative. The White Paper provides a useful examination of many facets of an SEZ regime, including measures for maximizing linkages between SEZ users and economic activities in the customs territory. Though the overall approach to the SEZ White Paper is very good, there are some instances where it departs from international best practices.

Treatment of Customs vis-à-vis SEZs. Customs is arguably the most important feature of the SEZ regime with respect to attracting and retaining transshipment and logistics businesses in Jamaican zones. However, the current Customs practices of Jamaica do not allow it to play in the same global logistics league as Rotterdam, Dubai, Singapore. Currently, however, re-vanning of cargo is not allowed inside free zones, and that status quo is going to stymie Jamaica’s goal to be a global logistics and transshipment leader.

In order for Jamaica’s logistics hub to thrive, Customs must allow transshipment of cargo in SEZs to be exported in different containers than the one in which it was originally imported. This covers the following scenarios:

- Cargo arrives in a Jamaican SEZ as a series of separate consignments, and is consolidated into a single consignment for export;
- Cargo arrives in a Jamaican SEZ as a single consignment, and is repacked into multiple consignments for export;
- Cargo arrives in a Jamaican SEZ, and is transshipped by a different mode of transport—ie. cargo arrives by air, and is exported by sea.

Similarly, Customs must allow for the following storage options in Jamaican SEZs:

- Cargo arrives in a Jamaican SEZ, is stored, and is distributed (domestic or export) on an as-demanded basis;
- Cargo arrives in a Jamaican SEZ, and is stored for over a year;
- Cargo arrives in Jamaican SEZ, is transformed and/or combined with local goods, and then exported;
- Cargo arrives in Jamaican SEZ, is transformed and/or combined with local goods, and then sold domestically.

Changes in the Customs regime are necessary to effectuate the above scenarios. Short of this, however, Jamaican SEZs will not be attractive for many companies engaged in cargo transshipment.

Registration and monitoring of companies outside SEZs. The White Paper rightly suggests that movement of goods and persons in and out of a zone and the profits of SEZ users are important things to monitor and audit from a Customs and tax compliance perspective. However, the optimal way to do so is not to require registration of vendors outside SEZs. Rather, it is the role of Customs, not the SEZ Authority, to supervise movement of goods in and out of SEZs.

Treatment of goods sold in Customs territory. As per the White Paper, 100 percent of the value of a good produced in a Jamaican SEZ would be subject to Customs duties when the good is sold into the customs territory. However, the best practice is to levy duties on the value of the *imported content*, not the

value of the entire product. When the entire product is subject to import duties, then it creates a disincentive for companies to locate operations in Jamaica, as the product will be subjected to the same duties regardless of whether it is produced in Jamaica or a foreign country. It also induces a disincentive to utilize local materials, because they will incur the same duties as

imported goods. This thus hurts, rather than encourages, linkages with the local economy.

“Estimated annual exports” as a potential criterion for SEZ enterprises. The SEZ White Paper is correct to discuss size as a potential criterion for zone eligibility. SEZ regimes often use minimal capital investment as an eligibility requirement for SEZ users. Use of “expected annual exports” as a criterion,

on the other hand, is problematic and likely runs counter to the WTO Agreement on Subsidies and Countervailing Measures. The linking of SEZ eligibility to exports—combined with a financial benefit such as a tax incentive—would likely be considered an illegal subsidy, and would invite scrutiny by WTO members.

Box ES – 1: El Salvador’s National One-Stop Shop

El Salvador, there is no one-stop shop specifically for free zone users. Rather, the Ministry of Commerce contains a general one-stop shop for issuance of licenses to *all* enterprises, not just zone users. The one-stop office contains officials from immigration, customs, business registry, and Ministry of Labor. Private zone operators have the authority to send a letter to the Ministry of Commerce to notify them of the issuance of a license. This works well for routine licensing cases, but the Ministry is involved for less orthodox company registrations. El Salvador’s free zone regime is featured in Case Study 7 in Annex 1 of this report.

“One-stop shop” investor services. The SEZ White Paper states that under the new SEZ regime, the SEZ Authority will operate a one-stop investor services facility. While this is not necessarily a bad practice, it might not be the optimal solution for Jamaica. Better options for a one-stop shop might include:

- **“Virtual One-Stop Shop”**, whereby all regulatory authorities are connected through an e-government portal accessible to businesses;
- **National One-Stop Shop.** Rather than limit one-stop investor services to SEZ users, Jamaica should consider adopting a national one-stop services model similar to that in El Salvador. (See Box ES – 1.) This would extend the same class of service to companies operating inside and outside of zones. As an initial pilot project, the center could be available only to SEZ users, and open to other companies after the pilot period.
- **Vest Authority with SEZ Operators.** SEZ developer/operators can play a role in one of two ways: 1) They can do the footwork on behalf of the SEZ user, facilitating the investor’s application through the system; or 2) The government can vest SEZ operators with the ability to issue some licenses on behalf of the government.
- **A Combination of Any of the Above.** The national one-stop shop, for instance, could be a virtual one-stop shop.

3. Preliminary Market Analysis

The report includes a preliminary analysis of the Caymanas Special Economic Zone from the perspective of two private sector groups—developers and SEZ users that would locate a business in the CSEZ.

Developers. Ten developers were interviewed for this report—three public, and seven private. They provided insights into the challenges associated with developing large-scale real estate and industrial infrastructure projects in the Caribbean region.

- **Launching phase and performance goals** of an SEZ is particularly long and expensive. The developer contributes a significant amount of capital without seeing a financial return for many years. Therefore, developers engaged in PPPs appreciate flexible contract conditions during the initial start-up phase. Performance goals set for a private SEZ developer should be flexible, and the PPP developer agreement should be carefully crafted to allow the private developer ample time to achieve successful outcomes. The SEZ operator needs to determine what its own specific advantages are in the CSEZ. It is therefore recommended that the SEZ Authority not over-dictate the industrial sectors that the developer must attract. Private development companies tend not to have a ready portfolio of clients they can bring to an SEZ as tenants. A successful developer does require marketing contacts in the region or throughout the world in order to generate interest in the zone. In CSEZ developer tender process, developers should demonstrate that they have marketing contacts that will help them promote the zone to potential tenants.
- **Overinvestment in Zones.** Overinvestment in zones by the government can detract from the profitability of private zones—and dissuade private developers from taking the risk to establish a new zone.
- **Low rents.** In general, rents in Jamaica are too low in relation to the cost of development. For example, a Triple A office space in Kingston suitable for leasing to a BPO client currently rents for US\$ 10 to 15 per square foot (US\$ 108 to 161 per square meter). The maintenance on that space run from US\$ 15 to 17 per square foot (US\$ 161 to 183 per square meter), which exceeds the revenue generated from the space. On the other hand, if a developer constructs a new building, costs might be US\$ 200 to 300 per square foot (US\$ 2,153 to 3,229 per square meter). Using a reasonable 10 percent rate of return on investment, then rents would need to be US\$ 20 to 30 per square foot (US\$ 215 to 323 per square meter) in order for a developer to be profitable.
- **Expensive project financing.** The cost of development financing is often high for developers in Jamaica. Interest rates can be around 10 percent for US dollar-

denominated loans, and in the teens for Jamaican dollars. Rates in the low single digits are Interest rates are generally required for real estate development to be profitable.

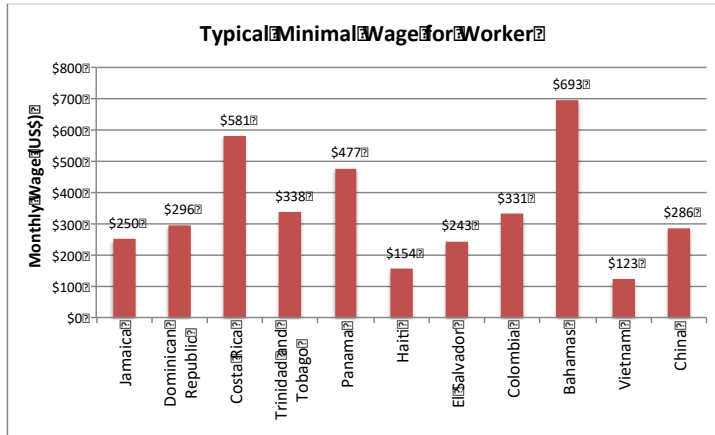
- **Lack of utility infrastructure.** Developers noted that the Caymanas site does not have proper access to sufficient quantities of water, power, or waste water treatment capacity. One developer stated that before he would even consider investing in the CSEZ, the government would need to get the site “development-ready”, meaning enhancing the utilities and infrastructure available for the site.
- **Lost credibility due to suspended CEZ project.** It is feared that the government of Jamaica lost credibility among potential developers when Cabinet suspended plans in 2013 to offer the short-listed preferred bidder a contract to develop the Caymanas Economic Zone. The cancellation of the project could have lingering effects in building rapport with SEZ developers in the future.

SEZ Users. Research was conducted on the relative costs associated with locating in Jamaica versus other destinations in the Caribbean and Asia. Rents for standard factory buildings in Jamaican free zones are on par with or lower than that available in other Caribbean countries, but higher than many Asian zones. Pre-fabricated buildings in Garmex Free Zone cost US\$ 4.97/ft², compared to US\$ 6.00/ft² in the Dominican Republic, US\$ 5.02/ft² in Costa Rica, US\$ 4.46/ft² in Colombia, and US\$ 3.94/ft² in Vietnam.

Another important site selection variable for potential zone users is the cost of

labor. An unskilled worker with no prior experience would likely earn US\$ 250 per month in Jamaica, while a skilled worker in the food industry would earn about US\$ 335 per month. (See Figure ES – 1 on the next page.) Of the countries surveyed, only Haiti, El Salvador, and Vietnam had lower minimal wages than Jamaica. Though Jamaica is not likely a competitive location for very labor-intensive industries such as cut-and-sew garment operations, Jamaica’s prevailing labor rates are not a deterrent for companies that are intent on investing in the Latin America/Caribbean region.

Figure ES-1:



Potential Industry Sectors

Industry sectors with potential to locate in the CSEZ include:

- **Logistics and Warehousing.** Product distribution (pharmaceuticals, automotive, heavy equipment), third-party logistics, container breaking, re-vanning, warehousing, and open storage;
- **Non-Food Manufacturing and Assembly.** Packaging and labeling, pharmaceuticals, automotive assembly, electronics, heavy equipment, paper, and medical devices;
- **Food Processing.** Shared co-packing facilities, niche gourmet products, research and development of new products;
- **Repair and Refurbishment.** Used automobiles, appliance warranty centers;
- **Information and Communications Technology/Business Process Outsourcing.** Call center, contact center, back office services;
- **Education**—Branch of university, college, training center, knowledge city, research, and product development.

3. Priority Recommendations

The recommended actions specified below represent priority actions the government of Jamaica should take in the short term. They do not, however, constitute an exhaustive list of policies and measures to be addressed by the government. These recommendations are not an assessment of options for establishing the CSEZ under any particular type of public-private partnership. Rather, they point to a set of activities that need to be taken to create an enabling environment for the right project structure based on the results of the technical and financial due diligence of a comprehensive feasibility study.

Ensure All Relevant Stakeholders Sit on Enterprise Team (June 2015)

The Enterprise Team should immediately be expanded to include all agencies with a stake in the development of the CSEZ. This includes the land asset holder, UDC, along with public utilities such as JPS, NWC, WRA, and telecommunications providers. The presence of representatives from these agencies is required to ensure that a comprehensive

conversation takes place regarding the feasibility and development of the CSEZ.

Conduct GLHI and CSEZ Studies (July 2015 – December 2016)

Issue RFP for the GLHI Market Analysis and Master Plan. This study will provide market feedback on the appropriate sectors and markets that would likely utilize Jamaica's Logistics Hub, develop a long-term urban plan for the phased development of the Logistics Hub. The study will also prioritize various "nodes"

within the Logistics Hub, package them into individual projects, and suggest how they can be developed in phases. The outcome of this work will provide important market feedback with regard to demand for space in the CSEZ. Annex 4 contains a TOR for the LHI Market Analysis and Master Plan.

Issue RFP for the CSEZ Feasibility Study.
The feasibility study is the crucial next

step for understanding the advantages and limitations of the CSEZ site, determining market demand for space in the zone, designing the zone master plan based on demand, determining the project's profitability, and finding a development scenario that minimizes GoJ financial risk, while maximizing the return for a private developer. Annex 3 contains a TOR for the CSEZ Feasibility Study.

Upgrade Off-Site Infrastructure (2015 – 2017)

The GoJ must take the initiative to upgrade key infrastructure required to render the CSEZ site “developer ready”. This includes the following:

- **Wastewater Treatment.** Expand the capacity of the Soapberry Wastewater Treatment Plant, which will be operating at or near capacity by 2016. Consideration should be given to developing an industrial pre-treatment stage at Soapberry, which could treat industrial waste discharged from the CSEZ without the need for pretreatment by zone users.
- **Water Supply.** Construct an additional water treatment facility so that the CSEZ site has access to piped water. Currently there is not sufficient water supply from either NWC or wells located within the CEDA.
- **Power Supply.** Make the required upgrades and/or connections to JPS's Doheny or Tredegar sub-stations in order to ensure reliable access to power for companies located in the CSEZ.
- **Drainage Mitigation.** Employ drainage mitigation measures recommended as part of the CSEZ Feasibility Study.

Draft SEZ Law and Regulations (July – October 2015)

Design of the new SEZ regime is the responsibility of the SEZ Policy Steering Committee. Assistance is being provided by an SEZ legal expert funded by the World Bank's Foundations of Competitiveness and Growth Project. The SEZ Policy Steering Committee should immediately convene Working

Groups to discuss and build consensus around key aspects of the new SEZ regime, including Customs, structure of SEZ Board and SEZ Authority, licensing and registration, environmental protection, taxation, etc. Design of the zone regime should precede the actual legal drafting.

Design an SEZ Regime that Maximizes Linkages to the Local Economy (July – October 2015)

In order to maximize linkages to the local economy, the SEZ regime should depart from recommendations in the SEZ White paper as follows:

1. **Apply Customs duties only on the value of imported inputs** when a good is sold in the Jamaican Customs territory. When the *entire* value of a good is subject to import duties, there is a disincentive for companies to utilize local raw materials since they will be treated in the same manner as imported goods if a final product is sold domestically. Such a system also creates a disincentive to manufacture products in Jamaica for the purpose of serving the local market since the value added of Jamaican labor is also subject to import duties when the good is sold into the customs territory.
2. **Apply GCT only on goods sold to domestic market.** The GCT should not be applied to goods raw materials and goods sold to firms located inside SEZs, until which time those products are entered into the Customs territory for sale on the domestic market. This creates a level playing field between imported and domestically produced goods, and guarantees equal treatment for Jamaican and imported raw materials and goods.
3. **Do not require registration and monitoring of firms located outside SEZs.** The SEZ White Paper proposes registration and monitoring of firms located outside SEZs by the SEZ Authority. In addition to creating an unnecessary layer of bureaucracy and other impediments, the policy does nothing to enhance backward linkages. It should be the role of Customs to monitor the flow of goods in and out of SEZs.
4. **One-Stop Investor Services for Entire Country.** The SEZ White Paper includes provisions for the SEZ Authority to organize a facility that will house multiple agencies under a single roof for the purpose of providing one-stop approvals, permits, and licenses to SEZ users. A small country like Jamaica might be better served by a one-stop facility or virtual one-stop shop that serves the entire country. It could be possible to pilot a national-level one-stop shop by initially only opening it to SEZ users.

Reform Customs (July 2015 – 2016)

Customs is arguably the most important feature of the SEZ regime with respect to attracting and retaining transshipment and logistics businesses in Jamaican zones. However, the current Customs practices of Jamaica do not allow it to play in the same global logistics league as Rotterdam, Dubai, Singapore. The Customs Law requires amendments that would allow for the following, among other things:

- Cargo de-vanning and re-vanning in SEZs;

- Domestic and international goods distribution from SEZs;
- Long-term storage in SEZs;
- Duties levied only on the value of imported inputs when final goods are sold into Jamaica's domestic customs territory;
- System for neutralizing import duties on goods produced in Jamaican SEZs that are destined for CARICOM markets. This will require multi-lateral negotiations with other CARICOM trading partners.

Adopt Good Environmental and Social Designs and Practices (July 2015 – onward)

The CSEZ should be designed and developed using Jamaican or international best practice standards for environmental and social protection, utilizing all necessary instruments such as EIAs, local stakeholder and community consultation, and proper resettlement policies, if applicable. The zone design should utilize green technologies and limit the impacts of climate change.

4. Action Plan and Institutional Roles and Responsibilities

Table ES – 1 lists key actions that the government of Jamaica should take with respect to developing a new SEZ regime, creating an SEZ Authority, advancing the Global Logistics Hub Initiative, and developing the Caymanas Special Economic Zone. The activities and actions specified in the matrix are not intended to be exhaustive of everything required to implement the new SEZ regime, Global Logistics Hub Initiative, or CSEZ project.

Table ES – 1: Key Institutional Roles and Responsibilities, and Suggested Timeline for Action

Action	Suggested Deadline ³	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Development of Jamaica’s New SEZ Regime										
Draft TOR(s) for SEZ legal drafting consultant(s), and initiate tender process	June 2015	█	█							<p>Responsibility: MIIC, with assistance from World Bank-funded FCG Project. FCG Project is funding SEZ legal drafting expert.</p> <p>Responsibility: SEZ Policy Steering Committee. Working groups needed to define, discuss, and come to consensus on how the SEZ regime will be structured in these major areas: SEZ governance, SEZ establishment, SEZ users, taxes and incentives, investor services (registration and licensing), Customs, allowable activities, environment, security, and provisions for grandfathering provisions of old free zone regime.</p>
Establish SEZ working groups	June 2015	█	█							<p>Responsibility: SEZ Policy Steering Committee, in consultation with GoJ, assisted by legal drafting team. Inter-ministerial and inter-agency agreement achieved on all areas pertinent to SEZ law and regulations. This must occur in advance of the first draft of the SEZ law.</p>
Achieve consensus on structure and details of SEZ regime	June 2015	█	█							<p>Responsibility: SEZ Policy Steering Committee in consultation with Free Zone Council, which has mandate to manage transition of firms that fall under Free Zone regime to the new SEZ regime. Need to engage in dialog with free zone business community on how business will be affected by new SEZ regime.</p>
Make decisions on how to grandfather existing free zone regime users in to new SEZ regime	June 2015	█	█							<p>Responsibility: Cabinet, upon advice from SEZ Policy Steering Committee and SEZ legal expert. The SEZ Policy is an important step toward developing the new SEZ regime. The draft SEZ Policy, however, does not address some important core areas of the SEZ regime.</p>
Approve SEZ Policy White Paper	July 2015			█						<p>Responsibility: Jamaica Customs Department. Revamp Customs to act as trade facilitators, rather than narrowly focused rules compliance and revenue collection role. Formulate new procedures for Customs operating in SEZs. Amend Customs law to allow for logistics activities at ports and in SEZs. Provide special training for Customs agents in SEZs.</p>
Initiate reform of Customs law and regulations as they pertain to SEZs	July 2015			█	█	█	█			<p>Responsibility: SEZ Policy Steering Committee, with inputs from SEZ legal drafting expert. Drafting team should consist of an international lawyer familiar with SEZ legal design, SEZ expert, and Jamaican legal</p>
Legal drafting team commences work	June 2015		█							

³ The GoJ was originally advised to undertake the first eight items in the Figure 5 – 1 from February to May 2015.

Action	Suggested Deadline ³	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Seek input from business sector on SEZ regime	June 2015		█							<p>drafter. SEZ legal expert works closely with SEZ Policy Steering Committee on process of crafting best practices and gaining consensus throughout GoJ.</p> <p>Responsibility: SEZ Policy Steering Committee. It is important that business leaders from all major industries weigh in on SEZ regime: BPO/outsourcing, logistics, trading, manufacturing, tourism, other services</p>
Draft SEZ law	August 2015		█	█						<p>Responsibility: SEZ Policy Steering Committee, in consultation with Legal drafting expert. SEZ Legal expert drafts law in close consultation with SEZ Steering Committee and MIIC, and SEZ working groups on achieving best practices consensus on structure of SEZ regime.</p>
Draft SEZ regulations	September 2015			█						<p>Responsibility: SEZ Policy Steering Committee, in consultation with Legal drafting expert. During drafting of regulations, draft SEZ law can be distributed for comment to GoJ.</p>
Approve SEZ law and regulations	October 2015				█					<p>Responsibility: Cabinet. Cabinet should receive no surprises. Consensus on law should be achieved before legal drafting commences.</p>
Debate and pass SEZ law	December 2015									<p>Responsibility: Parliament. Key members of Parliament should be consulted before and throughout legal drafting process.</p>
Creation of SEZ Authority										
Discuss and debate structure of SEZ Authority; reach consensus.	June 2015	█	█							<p>Responsibility: SEZ Policy Steering Committee, with assistance from legal drafting expert. This is part of the legal drafting process, as described above.</p>
Create organizational structure for SEZ Authority	June 2015		█							<p>Responsibility: SEZ Policy Steering Committee, with assistance from legal drafting expert/SEZ consultant.</p>
Search for SEZ Authority Board members	August 2015			█						<p>Responsibility: SEZ Policy Steering Committee and MIIC, once it is assured that Cabinet and Parliament will approve the structure of the SEZ Board and Authority.</p>
Search for SEZ Authority Director	September 2015			█						<p>Responsibility: SEZ Policy Steering Committee and MIIC, once it is assured that Cabinet and Parliament will approve the structure of the SEZ Board and Authority.</p>
Search for location for SEZ Authority	December 2015				█					<p>Responsibility: SEZ Policy Steering Committee and MIIC</p>
Identify SEZ Authority staff for hire	December 2015					█				<p>Responsibility: SEZ Policy Steering Committee and MIIC. The individual tapped as future SEZ Authority Director should participate in hiring decisions, to be confirmed by Board.</p>

Action	Suggested Deadline ³	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Create all necessary forms and documents required for operation of SEZ regime	December 2015									Responsibility: SEZ Policy Steering Committee and MIIC , assisted by identified SEZ Authority Director and staff. SEZ expert can assist.
SEZ Authority officially formed by SEZ Law	December 2015									Responsibility: Parliament. SEZ Authority and Board cannot commence any activities until officially formed by SEZ Law.
SEZ Authority Board formally constituted and SEZ Authority staff formally hired.	January 2016									Responsibility: SEZ Authority. SEZ Authority Board and staff should be identified prior to passing of law, but cannot commence duties until after law takes effect.
Global Logistics Hub Initiative										
Issue RFP for GLHI Market Analysis and Master Plan	June 2015									Responsibility: Jamaica Global Logistics Hub Secretariat. The study will create a master plan for the entire LHI, including recommended development sequence and timing, and suggested parceling of the LHI into individual projects that can be tendered, including the Caymanas SEZ.
Consultants conduct GLHI Market Analysis and Master Plan	August 2015–August 2016									Responsibility: GLHI consulting team. The GLHI study will be in two parts—a market analysis and a master plan. The entire study will last approximately one year.
Disseminate initial results from Phase 1 of GLHI Market Analysis	December 2015									Responsibility: GLHI consulting team and Logistics Hub Secretariat. The market analysis should be made available to consultants undertaking the Caymanas SEZ feasibility study.
GLHI Master Plan completed	August 2016									Responsibility: GLHI consulting team. This will help put the Caymanas SEZ in the context of the whole LHI.
Individual GLHI projects tendered for development.	Late 2016 - onward									Responsibility: Global Logistics Hub Secretariat and individual Enterprise Teams formed for the purpose of tendering individual projects. The GLHI will be developed as individual projects over a period of 10 to 15 years.
Development of Caymanas Special Economic Zone										
Consultant completes initial assessment of CSEZ	June 2015									Responsibility: SEZ consultant. The assessment looked at basic market conditions, characteristics of CSEZ site, connection with LHI, creation of new SEZ regime, and best practices in SEZ PPPs.
Research potential developers	June 2015 – July 2016									Responsibility: Enterprise Team, MIIC, SEZ Authority. Stakeholders should not wait until a CSEZ development RFP comes out to become acquainted with and consult potential developers. That can begin immediately. Annex 6 provides a sample questionnaire that can be used to guide discussions with developers.

Action	Suggested Deadline ³	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Issue RFP for CSEZ Feasibility Study ⁴	August 2015									Responsibility: Enterprise Team, MIIC. World Bank-funded FCG Project will fund CSEZ feasibility study.
Consultants conduct CSEZ feasibility study	October 2015 – September 2016									Responsibility: CSEZ feasibility study consultants. Study will take approximately 11 months.
Determine best development structure for CSEZ, based on CSEZ feasibility study and LHI study outcomes	September 2016									Responsibility: Enterprise Team, SEZ Authority. Feasibility study will suggest scope and scale of CSEZ project that minimizes GoJ risk and maximizes private developer returns. LHI study will rank priority of CSEZ project and other projects germane to GLHI.
Issue RFP for development of CSEZ	December 2016 - onward									Responsibility: SEZ asset holder, such as UDC (to be determined)
Select CSEZ developer and enter negotiations	December 2016 – onward									Responsibility: SEZ asset holder, such as UDC (to be determined).

⁴ Another option is to tender the CSEZ Feasibility Study together with the GLHI Market Analysis and Master Plan, though that will not dramatically affect the timing of the two studies, as depicted in Table 5 – 1.

INTRODUCTION



1. Introduction

This report was funded by the Public-Private Infrastructure Advisory Facility (PPIAF), a multi-donor technical assistance facility of the World Bank. It is designed to provide strategic advice to the government of Jamaica (GoJ) to allow it to make well-informed decisions on how best to implement the CSEZ development process, and attract and contract private sector investment or through use public-private partnerships (PPPs) and other development arrangements.

The report provides a preliminary assessment of the proposed CSEZ development, including an initial site assessment and analysis of the market facing developers and zone users. It also examines the context in which the CSEZ would be developed: 1) As part of a Global Logistics Hub Initiative (GLHI) to develop infrastructure and services conducive to attracting transshipment and logistics operations to Jamaica; and 2) As part of a new special economic zone (SEZ) regime, which would replace Jamaica's existing free zone program.

1.1 Background and Context

Global Logistics Hub Initiative

The Government of Jamaica is aggressively pursuing its Global Logistics Hub Initiative, a strategy to leverage Jamaica's geographical location to position itself as a global leader in cargo transshipment and logistics services, along the likes of Singapore, Rotterdam, and Dubai. The initiative also takes advantage of the expansion of the Panama Canal, which will double its capacity and allow Post-Panamax vessels up to 13,000 TEU to transit the canal. Through the GLHI, Jamaica is positioning itself to attract increased transshipment business brought about by the Panama Canal expansion. The GLHI involves development of several key

infrastructure assets, including in the Kingston Container Terminal (KCT), Norman Manley International Airport, Vernamfield, and others. It also includes development of new SEZs in and around the primary GLHI transportation nodes.

The GoJ has appointed a Logistics Hub Task Force under the Ministry of Industry, Investment, and Commerce (MIIC) to lead the establishment of the GLHI. With funding from the Foundations for Competitiveness and Growth (FCG) project, a Market Analysis and Master Plan study⁵ will be conducted to identify industry sectors with the most potential for the GLHI, create a master plan, roadmap, and

⁵ The terms of reference (TOR) for the GLHI Market Analysis and Master Plan is included in Annex 4 of this report.

timeline for GLHI development, consolidate development plans for key infrastructure such as ports and SEZs, and suggest specific projects within the GLHI that can be individually tendered in

Caymanas Special Economic Zone

The greenfield site slated for the CSEZ consists of 1,400 acres (566.56 hectares) of land owned by the Urban Development Corporation (UDC) in St. Catherine Parish west of Kingston. Plans have existed to develop an industrial zone within the Caymanas Estates Development Area (CEDA) since 2007. An initial master plan for a zone was created by Factories Corporation of Jamaica (FCJ), a state-owned industrial real estate agency under MIIC. FCJ retains an option to purchase 200 acres of land from UDC for the purposes of developing an industrial zone in Caymanas.

In 2009, MIIC issued an invitation for Expression of Interest to develop the Caymanas Economic Zone (CEZ). In December 2012, FCJ issued a Request for Proposals (RFP) to develop the CEZ together with the Naggo Head Information Technology Centre in nearby Portmore on land owned by FCJ. Ten bidders provided proposals. The short-listed preferred bidder was a joint venture between investors in China, United States, India, and Jamaica. The bidding process was subject to Cabinet

the short, medium, and long terms. The Caymanas Special Economic Zone would be one such project within the greater GLHI.

approval, but Cabinet never approved the bid.

After halting the CEZ project, Cabinet sought to strategically position the project within the wider context of the GLHI. Consistent with Jamaica's PPP Policy, the Cabinet appointed an Enterprise Team to guide and govern the development and procurement of the rebranded CSEZ project, which is the subject of this report. Through this consultancy, the Enterprise Team has sought examination of the prospects for an SEZ in Caymanas and strategic advice on PPP options for the CSEZ. The Enterprise Team also intends to issue an RFP for a feasibility study⁶ to determine the Business Case for the CSEZ project. The feasibility study would 1) examine the market demand and physical infrastructure of the proposed CSEZ; 2) create a master plan for the CSEZ; and 3) undertake financial and economic analyses to determine the project viability and propose private or PPP development structure(s) that would minimize GoJ financial exposure and risk while maximizing returns to private sector developers. The World Bank's FCJ Project has agreed to fund the CSEZ Feasibility Study.

⁶ The TOR for the CSEZ Feasibility Study is included in Annex 3 of this report.

Jamaica's Public-Private Partnership Programme

It is anticipated that many of the individual GLHI developments, including the CSEZ, will be implemented under Jamaica's new Public-Private Partnership Programme. Under the PPP Policy, the PPP and Privatization Unit of the Development Bank of Jamaica (DBJ) coordinate the PPP program, working closely with the Ministry of Finance, and the relevant sector ministries and agencies. The development of each PPP project is guided by an Enterprise Team, led by the responsible ministry. The Enterprise Team consists of senior officials who provide guidance on the project's development, evaluation, and procurement. As per policy, the potential PPP project must pass through the following stages:

1. **Project identification.** A project is identified as a potential PPP if it can potentially increase the value for money if it were pursued as a PPP. The CSEZ project currently falls in this category.
2. **Business case.** A feasibility study is conducted to determine if a potential project is viable—technically, economically, environmentally, and socially. This will determine if a project is best undertaken as a PPP. A TOR has been developed for the CSEZ Feasibility Study (See Annex 3 of this report), but an RFP has not yet been tendered.
3. **Transaction.** Bidders are requested for the project, pre-qualified, and invited to bid. The prior transaction for the CEZ was cancelled so that the GoJ could pursue the CSEZ project through these more rigorous PPP Programme channels.
4. **Contract management.** The PPP transaction is closed, and GoJ ensures that promises in the contract are delivered.

The next step for the CSEZ project is to undertake a full feasibility study to determine the viability of the project and optimal development arrangement.

New Special Economic Zone Regime

Cabinet approved Decision No. 3/14 on March 12, 2014, approving the development of a modern SEZ regime to replace Jamaica's free zone regime. The existing Jamaican free zones regime dates to the passage of the Jamaica Export Free Zone Act of 1982. That act governs the rules, obligations, and incentives under which free zone developers/operators and licensed zone users conduct business in both public and private zones. The GoJ desires to modernize its economic zone regime by enacting legislation to repeal the Export Free Zone Act and establish special economic zones. This is spurred by the following:

- Changes in global production and market conditions—including expansion of the Panama Canal—have opened up new opportunities for Jamaica to participate in global value chains. Moving beyond low-cost export-oriented manufacturing requires a modernized economic zone regime. Jamaica's new SEZs will be less like export enclaves, and have greater linkages to the local economy;
- The Export Free Zone Act provides a tax holiday for free zone users, which runs counter to the International Monetary Fund's (IMF) financial

restructuring plans to increase GoJ revenues;

- By the end of 2015, Jamaica's economic zone regime must conform to WTO rules for middle income

countries, including provisions of the Agreement on Subsidies and Countervailing Measures, which bans the type of export subsidies created by Jamaica's Export Free Zone Act.

To spur the creation of a new SEZ regime by the end of 2015, MIIC established an SEZ Steering Committee. The Steering Committee examined the types of support mechanisms required for successful SEZs, particularly those developed as part of the GLHI. The result is a Draft Interim SEZ Policy for the Establishment of SEZs. The SEZ Policy identifies a broad array of policy issues that will impact the success of SEZs, and provides policy recommendations for various stakeholders. The SEZ Policy will result in acceptance of an SEZ Policy White Paper by Cabinet, expected in February 2015.

The Free Zone Council, the regulatory body established by the Export Free Zone Act, has been re-constituted after a period of inactivity. MIIC has charged the newly reestablished Council with designing the specifics of the new SEZ regime, and overseeing the drafting of the new SEZ Law, which must be enacted by Parliament by December 31, 2015. The World Bank's FCG Project will fund a legal drafting team to assist with the drafting of the SEZ Law and regulations.

1.2 Report Organization

This report is designed to provide strategic guidance on the development of SEZs in Jamaica, with a focus on the proposed CSEZ. This will enable the GoJ to make well-informed decisions on how to best structure the new SEZ regime, and proceed with development of the CSEZ in a manner that limits GoJ exposure and risk. It will also provide the basis for a model for future SEZs developed under the Privatization and PPP Policies.

The report is organized as follows:

1. **Introduction.** Provides the background necessary to understand the context in which development of the CSEZ is proposed.
2. **Preliminary Market Assessment.** Examines the SEZ market from the perspective of developers and potential zone users.
3. **Assessment of the Caymanas Special Economic Zone Project.** Contains an initial assessment of the physical CSEZ site, and recommendations for infrastructure upgrades. Examines various development scenarios for the CSEZ in light of the GLHI development, with suggestions for suitable private and PPP contracting mechanisms.
4. **Creating a New SEZ Regime for Jamaica.** Identifies areas of Jamaica's SEZ Policy, Version 5.0 that are inconsistent with best practices in SEZ regime design. Provides a checklist for use in designing the new SEZ regime.
5. **Summary Recommendations.** Recommends a timeframe for actions over the next 24 months, with key institutional responsibilities for each action.

Annexes

1. Best Practices in Establishing SEZ Regimes through Use of Public Private Partnerships
2. Photographic Tour of CSEZ Site
3. Terms of Reference for CSEZ Feasibility Study
4. Terms of Reference for GLHI Market Analysis and Master Plan
5. Developer Consultation Questionnaire
6. Persons Consulted

1.3 A Note on SEZ Nomenclature and Units of Measure

Each country uses slightly different nomenclature to describe various aspects of SEZs. Throughout this report, the following terms are regularly, which in some cases might differ from terms in common use in Jamaica.

- **SEZ.** A geographically delimited area of serviced infrastructure, often allowing duty-free importation of goods. Free zones, export processing zones, and other types of economic zones fall under the broad heading of “SEZ”.
- **SEZ regime.** The system of laws, regulations, and institutions for developing and operating companies inside SEZs.
- **Regulator.** The corporate body with the responsibility to administer and regulate the SEZ regime. Under Jamaica’s Export Free Zone Act, the Free Zone Council is the regulator of Jamaica’s free zone regime.
- **Developer.** The entity that physically develops an SEZ site, and is responsible for financing, designing, and constructing SEZ infrastructure and facilities. In Jamaica, this is often referred to as the zone “promoter”.
- **Operator.** The entity under contractual arrangement with the SEZ owner or developer, with the responsibility of day-to-day management of the zone. This is also referred to as the zone “promoter” in Jamaica.
- **Zone user.** The enterprise that is licensed to establish a business in the SEZ. In Jamaica, this is often referred to as a zone “operator” (not to be confused with the way in which the term “operator” is used throughout this report).

Except where specified, all costs in this report are specified in U.S. dollars. Where prices were originally quoted in a currency other than U.S. dollars, the values were converted to U.S. dollars using the +/-2% inter-bank exchange rate on January 1, 2015.

All length, area, and volume measurements are expressed in both metric and imperial units, since imperial units are in common usage in real estate development in Jamaica.

PRELIMINARY MARKET ASSESSMENT



2. Preliminary Market Assessment

This chapter provides a preliminary assessment of the Caymanas Special Economic Zone from the perspective of two private sector groups—developers and potential zone users that would locate a business in the CSEZ. This analysis is not meant to take the place of an in-depth feasibility study nor a thorough developer search. Rather, it is to help the Enterprise Team understand a few of the strengths and weaknesses of the proposed CSEZ from the perspective of the private market.

2.1 Market Analysis from the Perspective of Private Developers

Ten developers were interviewed for this report—three public, and seven private. The companies develop and operate economic zones or other real estate ventures in Jamaica, Dominican Republic, Costa Rica, and El Salvador. They provided insights on market trends in those countries, as well as typical challenges they face as developers of large-scale infrastructure projects.

Typical SEZ Development Models

The prevailing SEZ development model in the Caribbean region is private sector development and operation of SEZs. This is currently more widespread among new SEZs than either public or PPP zone development. The different development models are described below.

Private. Private SEZ development often takes the form of Build-Own-Operate (BOO) arrangements, whereby the private sector owns the project outright, and is granted a license by the SEZ Authority to develop, finance, design, build, own, operate, maintain, and retain operating revenue from the SEZ. In the Caribbean region, the majority of SEZs are solely developed by the private sector with virtually no participation by government. None of the private companies interviewed for this report has entered into a PPP for the development of an SEZ. In countries like the Dominican Republic, El Salvador, and

Costa Rica, the initial free zones were developed by the government. Since the 1980s, however, all three of these countries have established a policy of only licensing privately developed zones. Zones are created solely at the initiation of the private developer based on his or her own sense of demand. This is similar to how private free zones are developed in Jamaica, such as Barnett Tech Park in Montego Bay and Kingston Wharves Free Zone in Kingston. Case Studies 5 and 7 in Annex 1 feature the private zone development models in the Philippines and El Salvador.

Concession. A concession gives an SEZ operator a long-term right to design, develop, operate, maintain, and/or promote a zone for a specified period of time. Case Study 1 in Annex 1 of this report details the lengthy development process of Panama Pacifico SEZ, and the resulting PPP concession between the government and private sector. The Panama Pacifico SEZ is somewhat of an exception in the region in that the developer was selected through a public

bidding process. The Panamanian government chose London & Regional Panama as the master developer of the Panama Pacifico Zone, and issued them a 40-year concession with exclusive development rights for 15 years. The concession PPP arrangement works well in cases like Panama Pacifico where: 1)

the government has a strategic brownfield site to divest and develop; 2) the project includes an entire infrastructure system, such as airport, industrial areas, commercial areas, and residential and social infrastructure, and 3) the SEZ is very large.

Long-Term Land Lease. Lying somewhere between private development and concession lies the long-term lease arrangement, popular for many SEZs around the world. Typically in a lease contract, a portion of zone receipts goes to the SEZ Authority or land owner. The remainder of revenue is retained by the operator. Leases are often used when the government owns the land asset but does not have the capital or expertise to develop and operate an SEZ. This is not a common SEZ development arrangement in the Caribbean region, but it is customary in some other parts of the world. Case Study 3 in Annex 1 is an example of a long-term lease arrangement between an industrial park and industrial zone authority in Vietnam, whereby the private developer pays lease fees to the authority. Case Study 2 highlights a long-term lease (organized as a concession) in which a private zone developer in Jordan pays the industrial park authority a percentage of revenues.

Public-Private Joint Venture. In an SEZ joint venture, a special purpose vehicle (SPV) is often established with a joint share ownership structure between the government and private sector. The split in ownership will determine whether the government is seeking to get the SEZ project off its balance sheet, or whether it wants to retain management control. An example of a joint venture PPP between the government of Myanmar and private sector is provided in Case Study 4 of Annex 1. Like Concessions, joint ventures are often utilized when a government wants to develop a strategic resource, such as a port-based SEZ in the case of Myanmar.

There is no single archetype that describes private SEZ developers and operators. They are not a specific type of company that invests in zones around the world. Most zone developers are joint ventures between several entities that are formed for the specific purpose of developing an SEZ project. In a PPP situation, this presents challenges for the developer search and bidding process because it is unclear exactly *who* to target to publicize the PPP tender. Searching for an SEZ developer “is like finding a needle in a haystack,” says one zone developer. He advised to avoid concentrating on large companies, and look at investors specifically interested in Jamaica who know what they are doing.

Structure of SEZ Developers

In general, there are several main types of zone developers, which are described below.

Large Multinational Companies.

Occasionally, large multinational companies develop and operate SEZs. This usually occurs when companies respond to a tender for a large PPP concession project that looks profitable or will allow them to enter a new country or regional market. Case Studies 1, 2, and 4 in Annex 1 examine three SEZs that were developed, in whole or part, by large multinational companies. The Panama Pacifico SEZ is being developed by London & Regional, one of Europe's largest property development companies with a worldwide investment portfolio over US\$ 14 billion. The Aqaba International Industrial Estate (AIIE) in Jordan is developed and operated by a group of investors that includes Parsons Brinkerhoff. Parsons is a global consulting firm that provides engineering services, infrastructure operations and maintenance, and other services to plan, develop, design, and

construct infrastructure. In the Thilawa SEZ in Myanmar, a consortium of three large multinational firms—Mitsubishi, Sumitomo, and Marubeni—have a 39 percent development stake in the zone.

Interestingly, all three of these zones received donor support in managing the global search for a large multi-national company developer or in putting together the consortium with a large multinational company to participate in the PPP. In the case of Panama Pacifico, the IFC managed the international master developer selection process and designed a development agreement. In the case of the AIIE, the government of Jordan was assisted by a USAID-funded project to conduct a worldwide search for a zone developer. In the Thilawa SEZ, the Japan International Cooperation Agency (JICA) was key to pulling together the consortium of large multinational Japanese firms to invest in the zone.

Consortia of Dynamic Investors. Most private SEZs are developed by firms with multiple equity partners, sometimes formed as a joint venture. The consortium of investors often includes a capital partner looking to add a profitable project to his or her portfolio, a partner with private sector experience, and a partner with zone operational or real estate development experience. The necessary factor to bring the development consortium together is the prospect for a profitable project, and a willingness to expand their investment portfolio in dynamic new ways. The development consortium often contains two or more of the following types of enterprises:

- Bank;
- Investment financing or holding company;
- Wealthy individual with large cash or land assets;
- Real estate developer;
- Transportation infrastructure developer;
- Construction contractors;
- Construction materials providers;
- Port developers;

The equity partners will form a company for the purpose of developing a specific SEZ. It is common for some of the more successful developers to invest in other SEZs in the same country. In the Latin American and Caribbean regions, it is not particularly common for a private developer to invest in zones projects outside the home country. There are exceptions, however, particularly in the Middle East, where there is more infrastructure investment across country borders, particularly among financial holding companies, and in Asia and Africa where Chinese, Japanese, and other Asian developers routinely invest in SEZs.⁷ One example is Al Tajamouat, a private industrial zone development company in Jordan, which expanded operations into Egypt and Qatar. Another example in the Caribbean region is Zeta Group, an Italian company established in Costa Rica that owns and operates four free zones in Costa Rica, as well as one in Nicaragua and one in Guatemala.

In the Caribbean region, it is very common for a developer consortium to include an established real estate developer. Real estate developers normally tend to specialize in one particular area of real estate—eg. commercial, residential, industrial. Some real estate developers, however, will innovate outside their core area of development. For example, a commercial real estate developer might

become interested in a technology park or other SEZ venture. These are the types of firms, among others, that the GoJ should target as potential development consortium partners for the CSEZ.

Government-to-Government. Another type of zone development structure is the government-to-government model. Though not as common a development structure as multinational corporations or consortia of dynamic investors, it is a viable option in certain cases where a donor government provides assistance to another country in the form of industrial infrastructure development. Government-to-government SEZ development assistance is featured in Case Studies 2 and 4 in Annex 1 of this report, summarized as follows:

- **Aqaba International Industrial Estate, Jordan.** Government of Jordan received a grant from the government of the U.S. (via USAID) for development of some on-site and off-site infrastructure for the zone. A large multinational corporation and consortium of dynamic investors also contributed development capital.
- **Thilawa SEZ, Myanmar.** The government of Japan (via JICA) provided a portion of development capital as a project shareholder (10 percent). Large Japanese multinational corporations and public and private companies in Myanmar also contributed development capital.

Requirements of SEZ Developers

⁷ Asian developers, who often invest in SEZs outside Asia, should be approached as part of the investment promotion of the CSEZ project.

Each SEZ regime maintains standards for the types of developers and zone projects that qualify for an SEZ developer license. This helps the SEZ Authority maintain quality standards for its zone program. Table 2 – 1, on the next page, lists the major requirements in seven different SEZ regimes that developers must meet as part of their application to develop and operate a zone. Each regime has different requisites, but the following are typical items that a potential developer must submit in its application:

- Feasibility study;
- Environmental study;
- Financial structure of project or evidence of project profitability;
- Security plan to prevent smuggling of goods;
- Physical master plan.

It is highly recommended Jamaica's SEZ Law and regulations specify developer application requirements that maintain the quality standards of the regime, but which do not overly deter or stymie private investment.

Suggestions and Recommendations Made by Developers

Seven private developers were interviewed for this report, and they provided insights into the challenges associated with developing large-scale real estate and industrial infrastructure projects in the Caribbean region.

Launching Phase. The launching phase of an SEZ is particularly long and expensive. The developer contributes a significant amount of capital without seeing a financial return for many years. Therefore, developers engaged in PPPs appreciate flexible contract conditions during the initial start-up phase. In some countries, such as Vietnam and Turkey, the government kick-starts a zone project by developing the first phase, and then hands over the project over to a private operator to develop subsequent phases in a profitable manner. This type of PPP arrangement is not common throughout the Caribbean, however. Initially, in countries like Dominican Republic, Costa Rica, and El Salvador, free zones were developed by the government. Now, however, development is 100 percent driven by the private sector.

Table 2 – 1: Major Requirements of SEZ Developers

SEZ Regime	Major Items Required by SEZ Authority to be Submitted by Developer
Colombia Free Trade Zones	<ol style="list-style-type: none"> 1. Master Development Plan, which takes into account the priorities and policies of the national government, and falls within the parameters of the national government development plan. 2. Feasibility Study, which includes optimum location, industrial processes and services to be developed inside zone, environmental aspects of zone, urban and architectural development, market study, estimated demand, financial statement forecast, information on project's financial structure, net present value, internal rate of return, jobs created, and others.
U.S. Foreign Trade Zones	<ol style="list-style-type: none"> 1. Location and qualifications of proposed site, including maps and site plans, showing the land and water area, means of segregation from customs territory, fitness of the area for a zone, possibilities for zone expansion, and anticipated activities to be conducted in zone. 2. Information on the project background, including the relationship of the project to the community and state's international trade-related goals and objectives. 3. Facilities that will be provided, including preliminary plans and cost estimates. 4. The time it will take to commence and complete construction of the zone. 5. Methods proposed to finance the zone. 6. Other information the USFTZ Board may require. <p>Detailed feasibility and engineering study, that shows the following:</p>
Philippine Special Economic Zones	<ul style="list-style-type: none"> • Site is part of a regional growth center; • Existence of transportation, telecommunication, power, water, and other infrastructure in adequate supply for the zone; • Vacant lands for future zone expansion; • Availability of labor around zone; • Significant incremental advantage over existing zones; • Potential profitability of zone can be established; • Site is strategically located; • Site is situated where controls can be established to curtail smuggling.
Vietnam Industrial Zones (Bac Ninh Province)	<ol style="list-style-type: none"> 1. Feasibility study 2. Environmental study 3. Other reports requested by provincial Industrial Zone Authority
Costa Rica Free Zones	<ol style="list-style-type: none"> 1. Environmental impact study 2. Business plan 3. Feasibility study not required, per se, but need to demonstrate the following: <ul style="list-style-type: none"> • Compliance with security standards to prevent smuggling; • Amount of investment and obligation; • Size of land; • Number of companies the zone will host; amount of anticipated employment; anticipated percentage of National Value Added; • Demonstrated evidence that zone can be constructed within three years.
Dominican Republic Free Zones	<ol style="list-style-type: none"> 1. Engineering and planning study 2. Demonstrate feasibility of zone, including required land, infrastructure, and volumes of zone users.
Trinidad and Tobago Free Zones (Stand-alone enterprise)	<ol style="list-style-type: none"> 1. Site survey plan 2. Physical master plan, showing site layout, including buildings, facilities, customs, boundaries, etc. 3. Details of security systems 4. Details of anticipated imported items.

Performance Goals. In a PPP development situation, performance goals set down for the private developer should be flexible. Interviewed developers noted that it would take about three to five years for a developer to see tangible revenues from their investment. Thus, the PPP developer agreement should be carefully crafted to allow the private developer ample time to achieve successful outcomes.

Character and Niche of the Zone. Even though the GoJ may conduct a market analysis and feasibility study for the CSEZ, the eventual SEZ operator needs to determine what its own specific advantages are in the CSEZ. It is therefore recommended that the SEZ Authority not over-dictate the industrial sectors that the developer must attract. The developer requires time to establish their own niche in the Jamaican and global market.

Developer Search. Developers have cautioned that when the government publicizes a tender for development of an SEZ, it should target dynamic investment entities, of the types described above. It should not limit itself to large companies or only companies that have developed zones elsewhere. They advise the GoJ to encourage a consortium approach in putting together a development team for the CSEZ.

Pipeline of Tenants. Private development companies tend not to have a ready portfolio of clients they can bring to an SEZ as tenants. Some developers caution that it is not reasonable to expect a developer to come to the table with potential zone

users in hand. For instance, the type of tenants that a real estate developer may have in one development or country does not necessarily translate into investors in Jamaica. Tenants are driven by their own site selection criteria, and generally don't follow operators to new zones in other countries.

Marketing Contacts. What a successful developer does require are marketing contacts in the region or throughout the world in order to generate interest in the zone. Chinese zone developers, for instance, often rely on professional contacts and marketing channels in China to attract Chinese firms to the SEZs they develop in Africa, Latin America, and other regions. In CSEZ developer tender process, developers should demonstrate that they have marketing contacts that will help them promote the zone to potential tenants.

Overinvestment in Zones. If the GoJ is moving toward an SEZ regime that relies on private development of SEZs, then it cannot at the same time continue to fund and develop public zones. Overinvestment in zones by the government also takes away from the profitability of private zones—and dissuades private developers from taking the risk to establish a new zone—in several ways. First, land and services in public SEZs are often offered at a lower price than private zones because of the subsidized nature of the development, and this can be harmful to private zone operators who charge market-based rates. Secondly, if the SEZ Authority issues too many SEZ developer licenses for zones in the same vicinity—without sufficient evidence of demand—it

waters down demand for serviced industrial infrastructure to the peril of all SEZs. That is why the Philippine Economic Zone Authority (PEZA) requires that SEZ developer applicants demonstrate that a new zone has a significant incremental advantage over existing zones. Case Study 2 in Annex 1 demonstrates a case where public zone development potentially interfered with the ability of a private developer to attract tenants to an industrial estate.

Global Competition. Caribbean SEZ developers noted that they used to compete only with other zones in the Caribbean and Latin American region. Now, however, competition extends to zones in Vietnam, Bangladesh, and India. The biggest challenge of being a developer, noted one Caribbean developer, was “getting clients [to locate in his zone].”

Developer Challenges in Jamaica

The Jamaican developers interviewed for this report all agreed that the current landscape for developers is very challenging. Some of their concerns are as follows:

Rents. In general, rents in Jamaica are too low in relation to the cost of development. For example, a Triple A office space in Kingston suitable for leasing to a BPO client might rent for US\$ 10 to 15 per square foot (US\$ 108 to 161 per square meter). The maintenance on that space, however, might run US\$ 15 to 17 per square foot (US\$ 161 to 183 per square meter), which exceeds the revenue generated from the space. On the other hand, if a developer constructs a new building, costs might be US\$ 200

to 300 per square foot (US\$ 2,153 to 3,229 per square meter). Using a reasonable 10 percent rate of return on investment, then rents would need to be US\$ 20 to 30 per square foot (US\$ 215 to 323 per square meter) in order for a developer to be profitable. This is one of the primary explanations for the relative lack of private sector development in Jamaica, according to local developers.

Project Financing. The cost of development financing is often high for developers in Jamaica. Interest rates can be around 10 percent for US dollar-denominated loans, and in the teens for Jamaican dollars. Rates in the low single digits are generally required for real estate development to be profitable. In cases where developers have found lower interest rates, the fees on the loans are very high, around 2.5 percent. Financing through the Development Bank of Jamaica is an option, but DBJ’s policy is not to lend in amounts greater than US\$ 5 million, with a 12-year term. By contrast, developers prefer a 20-year payback period, with a four-year moratorium on payment of principal and interest. This allows the developer 18 to 24 months to construct the zone, one year to attract clients, and one year to establish a flow of revenue. Based on interviews with developers elsewhere in the region, that is the minimum amount of time required for developers of large infrastructure projects to see revenues suitable enough to begin loan repayment.

Lack of Experience with Industrial Development. Most real estate developers in Jamaica are engaged in commercial or residential development,

and do not have experience with industrial development, except for purpose-built factories such as Grace. Interviewed firms are not necessarily averse to expanding their investment portfolio as long as a project is feasible and practical. In general, the real estate sector is not clear on the demand for industrial property, and they probably would not initiate a feasibility study themselves for a project like the CSEZ.

Off-Site Infrastructure Funding. Developers complained that in Jamaica they must fund their own off-site infrastructure connections. This is a practice in some countries, particularly where there is a shortage of public funds to pay for off-site water, power, sewer, telecommunications, and road connections to an SEZ. However, it taxes a private developer's own financial resources, and puts him or her in a situation of providing infrastructure that

the public utility will profit from. By contrast, private free zone developers interviewed in the Dominican Republic stated that they are required to only construct on-site utility networks—not off-site—which is considered a best practice for the private and PPP development of SEZs.

Lack of Planning. Jamaican developers lamented the lack of a dynamic planning process in the country. There typically are not master plans for visions for the city, specifying the 10-, 15-, 20-, or 50-year development goals. Thus, if a developer decides to invest in a project, it cannot be certain what will grow up around that development in the future. If the GoJ sets out a long-term development master plan, developers want a good degree of confidence that the plan will be adhered to. They complained that that is currently not the case in Jamaica.

Concerns by Developers about the CSEZ Project

When questioned about the CSEZ project, Jamaican developers and other stakeholders echoed the following concerns.

Lack of Utility Infrastructure. Developers noted that the Caymanas site does not have proper access to sufficient quantities of water, power, or waste water treatment capacity. This is particularly concerning for developers since they stated that they must pay for infrastructure connections themselves. One developer stated that before he would even consider investing in the CSEZ, the government would need to get the site “development-ready”, meaning enhancing the utilities and infrastructure available for the site.

Social Infrastructure. Some developers have not been satisfied with GoJ's attention to social infrastructure when considering large-scale developments such as the CSEZ. One developer recommends staying two to three years ahead of job creation when developing social infrastructure such as housing,

schools, hospitals, fire and emergency response, etc. Recognizing that this is an issue, the SEZ Policy suggests that an Urban Support Area be developed adjacent to new SEZs, and that a special license be granted to an Urban Support

Area developer.⁸ In theory this is not a bad policy, per say, but, as noted by the

Ministry of Transport, Works, and Housing, it appears that the Urban Support Area developer would be fulfilling all the functions of government in its provision of social amenities. This is an area that requires a lot of coordination before the drafting and enactment of the SEZ Law and regulations.

Incentives. When asked about their potential interest in the CSEZ project, developers noted that the GoJ has not yet made up its mind about the taxes and incentives available for site developers. Therefore, developers do not know what they would be getting into, and cannot craft a business model based on indecision on the part of GoJ.

Size of Project. One developer noted that the size of the CSEZ project is too large for one company to undertake, stating that the up front capital costs would be too costly. Jamaican developers are used to having contracts in hand before they will begin development, so the concept of a large infrastructure project such as the CSEZ seems to be an untenable proposition. This is another reason why the GoJ should conduct a feasibility study for the CSEZ. The study would help determine just how large the CSEZ should be, and how it should be phased over time. This phasing might result in a more attractive investment project for potential developers. A draft TOR for the CSEZ Feasibility Study is included in Annex 3 of this report.

⁸ SEZ Policy, Version 5.0, p. 14.

One-Stop Investor Facilitation. Some Jamaican developers raised concerns about how the government of Jamaica intends to operate its one-stop, expressing a desire for streamlined investor services, with minimal time delays for investors. Several developers are familiar with the one-stop investor facilitation center at zones such as Panama Pacifico SEZ. Panama Pacifico features one building that hosts representatives of 17 government agencies. The time required to secure all permits is only two hours at the center. El Salvador's one-stop service windows, on the other hand, are not a function of the free zone regime. Rather, they offer streamlined business procedures for *all* companies, regardless of whether they are located in a free zone or not. In some cases, such as issuance of licenses, the government delegates authority to managers of free zones to carry out this function. The Panama Pacifico and El Salvador examples are featured in Case Studies 1 and 7 in Annex 1 of this report.

Lost Credibility Due to Suspended CEZ Project. It is feared that the government of Jamaica lost credibility among potential developers when Cabinet suspended plans in 2013 to offer the short-listed preferred bidder a contract to develop the Caymanas Economic Zone. Though Cabinet was not legally bound to accept any of the bids, investors communicate amongst each other, and a failed investment process can become widely known among the investor community, especially for something as high profile as a large infrastructure project. The cancellation

of the CEZ project could have lingering effects in building rapport with SEZ developers in the future. In Bangladesh, for instance, unfulfilled promises by the government of Bangladesh to the

developers of the Korean Export Processing Zone since 1994 has been largely responsible for considerable delays in attracting other SEZ developers to the country.

2.2 Market Analysis from the Perspective of Potential Zone Users

This section examines the CSEZ from the perspective of potential zone users. This market analysis is not a substitute for the in-depth market assessment conducted during a feasibility study, would include in-depth cost and quality benchmarking, extensive company interviews, analysis of trade and investment data, and other in-depth research. Rather, the preliminary analysis provides an initial snapshot of how Jamaica looks as an investment location based on several factors. Research was conducted on the relative costs associated with locating in Jamaica versus other destinations in the Caribbean and Asia. Representatives from various industry sectors were also interviewed to understand their investment motivations. Finally the Jamaica Promotions Corporation (JAMPRO) provided insights into investment trends in the logistics, manufacturing, and BPO sectors.

Cost of Land and Buildings in SEZs

In the Caribbean and Central America, it is not common for SEZ developer/operators to sell or lease land to zone users. Rather, the most typical model is for developers to construct standard factory buildings (SFBs), and offer five to ten-year leases to zone users. Constructing SFBs is often more profitable for developers than simply leasing land to zone users. This is typical in Jamaica, Dominican Republic, Costa Rica, Nicaragua, Guatemala, and Dominican Republic. Colon Free Zone in Panama and Zona Franca Parque Central in Cartagena, Colombia do offer land for sale or lease, and this is actually an attractive option, particularly for companies that want to design and construct their own facilities or those that require open spaces for cargo breaking and re-vanning.

Table 2 – 2, on the next page, shows the costs of leasing or purchasing land and SFBs in selected zones in Jamaica, Dominican Republic, Costa Rica, Colombia, Panama, and Vietnam. A privately developed industrial zone in Vietnam is included as a comparator country because it is

Economic Zone	Land	Standard Factory Building (SFB)
Kingston Free Zone, Jamaica	Not available	5,500 ft² and 6,000 ft² (511m² and 557 m²) SFB US\$ 4.97/ft ² /yr (US\$ 52.42/m ² /yr)
Jamaica International Free Zone, Jamaica	Not available	ICT Lease US\$ 6.35/ft ² /yr + \$3.80/ft ² /yr maintenance (US\$ 68.35/m ² /yr + \$40.90/m ² /yr maintenance) Logistics Center Lease US\$ 5.06/ft ² /yr (US\$ 54.47/m ² /yr) maintenance included
Garmex Free Zone, Jamaica	Small Lots for Open Storage US\$ 1.50/ft ² /yr (US\$ 16.14/m ² /yr)	30,000 ft² (2,787 m²) SFB Lease US\$ 4.93/ft ² /yr (US\$ 53.07/m ² /yr) maintenance included Factory Space Lease US\$ 5.75 – 6.50/ft ² /yr (US\$ 61.89 – 69.97/m ² /yr) Utilities not included Office Space Lease US\$ 10.50 – 13.50/ft ² /yr Utilities not included (US\$113.02 – 145.31/m ² /yr)
Montego Bay Free Zone, Jamaica	Not available	Office Building Space Lease US\$ 14.50/ft ² /yr (US\$ 156.08/m ² /yr)
Barnett Tech Park, Jamaica	Individual land sales negotiated on case by case basis.	Office Building Space Lease (targeted rate) US\$ 10/ft ² /yr (US\$ 107/m ² /yr)
Naggo Head Technology Park, Jamaica	Not available	
Parque Industrial Itabo, Dominican Republic	Not available	Basic SFB Lease US\$ 6/ft ² /yr (US\$ 64.58/m ² /yr)
Colón Free Zone, Panama	Colón Commercial Area US\$ 1.11/ft ² /yr (US\$ 12/m ² /yr)	Colón Commercial Area Lease US\$ 4.46/ft ² /yr (US\$ 48.00/m ² /yr)
	France Field Commercial Area US\$ 0.67/ft ² /yr (US\$ 7.20/m ² /yr)	France Field Commercial Area Lease US\$ 3.07/ft ² /yr (US\$ 33/m ² /yr)
	Jose Dominador Bazan Com. Area (US\$ 7.20/m ² /yr)	Jose Dominador Bazan Com. Area Lease US\$ 1.95/ft ² /yr (US\$ 21/m ² /yr)
	Coco Solito Commercial Area US\$ 0.45/ft ² /yr (US\$ 4.80/m ² /yr)	Coco Solito Commercial Area Lease Not available
	Mar Manglar Construction Area US\$ 0.45/ft ² /yr (US\$ 4.80/m ² /yr)	Mar Manglar Construction Area Lease Not available
Trinidad and Tobago Free Zones	Trinidad and Tobago relies on stand-alone single-factory “zones”, rather than multi-use zones.	
Costa Rican Free Zones	Generally not available	Lease of SFB—General Range US\$ 5.02 – 13.38/ft ² /yr (US\$ 54 – 144/m ² /yr)

		Lease of Office Building—General Range US\$ 16.72 – 33.45/ft ² /yr (US\$ 180 – 360/m ² /yr)
	Sale of Lot US\$ 18.58/ft ² (US\$ 200/m ²)	
Zona Franca	Lease of Lot US\$ 2.23/ft ² /yr (US\$ 24/m ² /yr)	Sale of Warehouse US\$ 65.96/ft ² – 74.32/ft ² (US\$ 710 – 800/m ²)
Parque Central, Cartagena, Colombia	Lease of Industrial Yard US\$ 2.23/ft ² /yr (US\$ 24/m ² /yr)	Lease of Warehouse US\$ 8.92 – 10.03/ft ² /yr (US\$ 96 – 108/m ² /yr)
	Land Lease US\$ 0.11/ft ² /yr (US\$ 1.17/m ² /yr) Maintenance and all fees included	53,820 ft² (5,000 m²) SFB US\$ 3.94/ft ² /yr (US\$ 42.50/m ² /yr)
Que Vo Industrial Park, Vietnam		5,597 ft² (520 m²) Office Space US\$ 6.74/ft ² /yr (US\$ 72.50/m ² /yr)

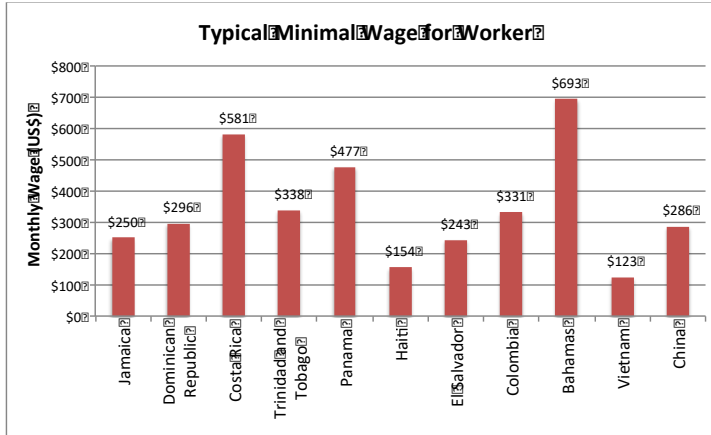
Table 2 – 2. Cost of Land and Buildings in Comparator SEZs

A growing destination for outsourced manufacturing and assembly, and offers a competitive cost structure for multinational firms. In Jamaica, yearly lease of an SFB in a public free zone ranges from US\$ 4.93 per square foot (US\$ 52.42 per square meter) in Garmex Free Zone to US\$ 6.50 per square foot (US\$ 69.97 per square meter) in Montego Bay Free Zone. These yearly lease rates are lower than private free zones in the region, such as those in the Dominican Republic (US\$ 6.00 per square foot), Costa Rica (US\$ 5.02 to 13.38 per square foot), and Colombia (US\$ 8.92 per square foot).

When the CSEZ is developed, the lease rates charged to zone users will likely be higher than those offered by Jamaica’s

public free zones because the CSEZ rates will reflect market prices. The CSEZ is not likely to compete with the Kingston, Jamaica International, or Garmex Free Zones, however, since Kingston is operating at 98 percent occupancy, Jamaica International at 90 percent, and Garmex is also near capacity. Thus, Jamaica is approaching a shortage of serviced industrial land and facilities in the vicinity of KCT. Kingston Wharves is developing a free zone, which many prospective investors have found attractive. Short of that, there is little else that is suitably developed for logistics, transshipment, and manufacturing companies. This bodes well for the ability of the CSEZ to absorb any future new demand.

Figure 2 – 1:



Cost of Labor

Another important site selection variable for potential zone users is the cost of labor. Figure 2 – 1, at left, illustrates the typical minimal wage⁹ a worker would earn in each of the 11 comparator countries. An unskilled worker with no prior experience would likely earn US\$ 250 per month in

Jamaica, while a skilled worker in the food industry would earn about US\$ 335 per month.

In the BPO sector, monthly wages range from US\$ 350 to 600, depending on experience. Jamaica's labor rates are competitive with the Dominican Republic, Costa Rica, Trinidad and Tobago, Panama, Colombia, Bahamas, and China. Of the countries surveyed, only Haiti, El Salvador, and Vietnam had lower minimal wages than Jamaica. This indicates that while Jamaica is not likely a competitive location for very labor-intensive industries such as cut-and-sew garment operations, Jamaica's prevailing labor rates are not a deterrent for companies that are intent on investing in the Latin America/Caribbean region.

With numerous laid off garment workers, and a diaspora of skilled mechanics living throughout the Caribbean, Jamaica has a large pool of labor suitable for both manufacturing and service-related industries such as BPO and tourism. The Caribbean Maritime Institute is located in Jamaica, which graduates students with skills in freight forwarding, maritime insurance,

Table 2 – 3: Cost of Electricity

management, and terminal agency operations. Investors interviewed for this study in the BPO and food processing sectors noted, however, that Jamaica has a shortage of mid- to upper-level management talent. Investors that have the capital to start new manufacturing enterprises, for instance, are often not necessarily qualified to run them. The SEZ Steering Committee has rightly noted in the SEZ Policy that additional training programs will be required to upgrade workforce skills in management and other areas.

Cost of Electricity

The cost of electricity in Jamaica was higher than any other country surveyed in terms of both energy usage¹⁰ prices and charges based on the capacity of power demanded. Both Jamaica and

⁹ Source: *Doing Business 2015*, World Bank Group. The wages are typical of those earned by a full-time 19-year old supermarket cashier with one year experience, who does not belong to a labor union, unless mandatory by law.

¹⁰ The listed prices are JPS and fuel surcharge rates charged by JPS as of January 1, 2015.

the Dominican Republic offer significantly lower rates for high volume electricity users. It has become common for some large manufacturing firms in Jamaica to build their own captive power plants. Examples include Red Stripe and China Sugar. Jamaica's high power rates could very likely dissuade energy-intensive manufacturing investors from locating in the country.

2.3 Potential Economic Activities in the CSEZ

Table 2 – 4, on the next page, highlights some industries that have potential to locate in the Caymanas Special Economic Zone. The purpose of discussing these sectors is to offer a glimpse of some types of businesses that could succeed in the CSEZ. This preliminary assessment is not intended to replace a full market analysis, nor is it intended as a demand forecast. A comprehensive feasibility study will still need to be carried out to better approximate demand for space in the CSEZ in the short, medium, and long terms.

Some generalizations can be drawn from this market assessment.

Preferred Location. Logistics and manufacturing companies alike noted

that they wanted to be located as close to the KCT as possible. Based on the current availability of free zone land, Kingston Wharves is most often noted as the preferred location. The exceptions are food processing companies, who generally prefer to locate near the source of agricultural raw materials. They too, however, noted that there are aspects of an SEZ regime that could be beneficial to their business models. Both Montego Bay and Kingston were attractive to the BPO sector. Montego Bay was more popular among call center companies, and Kingston among companies that require access to business skills required for remote back office support services such as accounting.

Exporters. Most investment in export-based manufacturing is by Jamaican enterprises. Very few foreign investors are locating in Jamaica for the purpose of using it as an export platform. Jamaican exporters have traditionally served CARICOM and North American ethnic markets.

Table 2 – 4: Industries with Potential to Locate in the CSEZ

Industry	Sub-Sectors Likely to Locate in CSEZ	Required Facilities	Notes
Shipping, Logistics and Warehousing	<p>Large shipping companies Product distribution (pharmaceuticals, automobiles, heavy equipment) Third Party Logistics (3PL) Container breaking, de-vanning, and re-vanning Climate-controlled warehousing Regular warehousing Open storage Reverse logistics Transit hub</p>	<p>Facilities: General desire to have facilities on or near KCT. Port communication system that is universal. Connectivity to ocean and air. On-site cargo connections. CSEZ: Would locate in pre-built SFBs/warehouses, climate controlled warehouses, open lots. Companies for whom port-side location was critical might not locate in the CSEZ due to extra cost of cargo movement. Roof heights should be at least 30 feet (9.1 meters) high, so allow for container and palette stacking in warehouses.</p>	<p>Location: The sector is largely focused in and around KCT. Potential investors seriously considering Kingston Wharves Free Zone or KCT property. Attraction: English-speaking environment; strong transshipment capabilities; KCT has shipping lines investors already use. Looking for more competitive sites to expand their operations. Want to use Jamaica to access U.S. and Canadian markets. Panama Canal expansion does not play into investment decisions. Concerns: Government processes are bureaucratic and slow moving; no air connectivity to cargo; additional ground transportation costs associated with locations that are not adjacent to the port; CAF Customs fees. The willingness of large logistics providers to locate in and around the CSEZ vital to the success of the GLHI. Attracting logistics providers is often difficult because large logistics operators often will not service a port unless there is sufficient existing port movement, and yet the port can often not generate enough activity with being serviced by the large logistics providers; Competition: Logistics investors in pipeline are shopping around. Also considering Caucedo (Dominican Republic), Panama, Cuba, and Miami (U.S.). Demand from shipping companies who are currently servicing the Panama Canal is important, as capturing some of the business from the Canal is also a key objective of the GLHI; SEZs: Transition from free zone to SEZ regime worrisome for investors. They want a guarantee of certainty over a long period of time that the SEZ regime will not change at the whim of government. They want to know precisely what regime will offer, and have it be stable.</p>
	Non-Food Manufacturing and Assembly	<p>Packaging and labeling Pharmaceuticals Automotive assembly for export Electronics (electrical motors)</p>	<p>Facilities: Investors looking for buildings of the following sizes: 30,000 ft², 60,000 ft², 150,000 ft² (2,787, 5,574, and 13,935 m²)</p>

2. PRELIMINARY MARKET ASSESSMENT

Heavy equipment
assembly (and
distribution)
Paper
Medical devices

CSEZ: Would locate in
SFBs, and would lease
land for own facilities.

not a theoretical development. Some investors
interested in Vernamfield.

Origin of Firms: North American. Very little
interest from Asia.

Attraction: Largely interested in CARICOM
market, and using Jamaica to access U.S. and
Canada. Some investors also interested in
serving non-CARICOM Caribbean and some
Latin American markets. Diversity from other
locations in region.

Concerns: Industrial unrest. Investors
concerned how frequently it occurs in Jamaica.
Pharmaceutical investors concerned about
discharged waste.

Competition: Dominican Republic

SEZs: Free zones not attractive for
manufacturing companies wanting to access
CARICOM market. Some companies requesting
how they can acquire property in Caymanas
area. CSEZ would be attractive to
manufacturers, but need better ways to move
expeditiously to port. A 10 to 15-minute transit
time might be acceptable. Investors concerned
about change from free zone to SEZ status, and
want to know what the legal changes will be.
They are concerned they must pay taxes.

Location: Tend to locate near source of
agricultural raw materials—St. Ann, St.
Elizabeth, St. Thomas, St. Mary, Clarendon.

Origin of Firms: Jamaica

Attraction: Jamaica is an agrarian society at its
heart. Industry has experienced steady growth,
particularly in export sector. Expanding export
markets to Latin America, North America,
Europe, Australia, and Asia. Jamaican expats
returning to invest in food industry.

Concerns: CSEZ land is low-lying with drainage
problems. One of last locations with good
arable land. Slow government bureaucracy.
Jamaican farms are small and inefficient. The
whole approach to marketing Jamaica as a
brand has been weak.

Competition: Dominican Republic and Costa
Rica.

SEZs: Tend not to locate in free zones. CSEZ
could potentially be attractive if drainage
problems fixes. Duty-free nature of SEZs
attractive because packaging materials are
imported. The sector's interest in SEZs will all
depend upon the incentives offered. Incentive
scheme must be long-term and predictable. A
very important incentive would be a one-stop
investor services center that would include the

Food
Processing

Shared co-packing
facilities
Niche gourmet
products (sauces,
spices, canned fruits
and vegetables)
Research and
development of new
products and recipes

Facilities: Must be
built to world standard
guidelines and rigid
specs for food
processing (HAACP
and FSMA). Tilt-up
construction. Would
require 15,000 to
40,000 ft² (1,394 to
3,716 m²) of building
space.

CSEZ: Would prefer
pre-build facilities
over land lease, but
facilities would have to
adhere to strict
guidelines for food
industry.

2. PRELIMINARY MARKET ASSESSMENT

Repair and Refurbishment	Used automobiles Appliance warranty centers	<p>Facilities: Covered storage and/or open lot.</p> <p>CSEZ: SFB or open lot.</p>	<p>16 government bodies food processors must deal with—trade board, Ministry of Agriculture, Bureau of Standards, Phytosanitary issues, and security. A smooth bureaucratic process is more important than a tax holiday. SEZ near port is attractive because it could shorten a food company’s logistics exercises; goods would go directly to port for export. A 10-minute transit time to the CSEZ would still be close enough, though not ideal.</p> <p>Attraction: Ability to import second-hand cars and refurbish them for the Caribbean market. Establish appliance repair and warranty centers that serve Caribbean markets.</p> <p>Concerns: Current law does not allow for importation, storage, and of used cars. Law would need to be changed.</p> <p>SEZs: Offer the ideal environment because products can be brought into the zone and repaired, manipulated, etc. without payment of duty, and then distributed to regional market.</p>
ICT/BPO	Call center Contact center (web chat) Back-office support (accounting)	<p>Facilities: Generally do not construct own facilities. Locate in office buildings, SFBs converted to office use, and technology park facilities.</p> <p>In CSEZ: Would locate in a purpose-built office park or factory shell in light industrial area of zone.</p>	<p>Location: The sector is expanding in Kingston, partially driven by space limitations in Montego Bay Free Zone, and partially driven by large educated labor pool in Kingston.</p> <p>Origin of Firms: North America, Jamaica (smaller)</p> <p>Attraction: Investors attracted to English-speaking population, accent neutralization, cultural compatibility with North America, competitive wage rates, telecommunications of first world standards.</p> <p>Concerns: Investors’ perception of crime in Kingston.</p> <p>Competition: Costa Rica, El Salvador. Not India, since potential investors are those who want to locate in Western Hemisphere to be close to large North American market.</p> <p>SEZs: Biggest attractions of SEZs are fiscal incentives and duty-free importation of equipment. Indecision about incentives under new SEZ regime has not stalled investment decisions of interested companies.</p>
Education	Branch of University Technical College Training center “Knowledge City” Research, product development	<p>Facilities: Office park, tech park, or campus-like environment.</p> <p>In CSEZ: Could be part of an office park/tech park complex at North Site.</p>	<p>Location: One educational institution was looking for a site adjacent to the CSEZ.</p> <p>Attraction: Education sector growing. Some institutions are considering a “Knowledge City”, a grouping of educational institutions. Main schools in Kingston area are University College of the Caribbean, University of Technology, and University of West Indies.</p>

However, they have begun to branch out into higher spending markets such as Latin America, large U.S. supermarket chains, Australia, and New Zealand. Food processing companies, in particular, are adding shifts to facilities in Jamaica and increasing production. Exporters lamented the fact they had to pay CAF Customs fees even though their goods are bound for export. They noted that this week does not exist in other SEZs throughout the region.

Government Bureaucracy. Jamaica stood out from some of the comparator countries due to the slow speed at which government decisions are made. What was frustrating to the investors was the time it took to get definitive answers on things—particularly Customs matters—and the lengthy process to close any transaction. For companies without prior experience in Jamaica, this came as a surprise to them.

Competition. Manufacturing companies cited the Dominican Republic and Costa Rica as the two countries in the region that are significant competitors. Logistics firms, on the other hand, stated that Dominican Republic, Panama, Colombia, and Miami, U.S. offer the greatest competition to Jamaica in terms of transshipment and logistics business. This is due to competitive port costs, efficient port operations, and air-sea connectivity. Interviewed firms noted that Cartagena, Colombia is extremely well organized with regard to port operations, and they will become a significant competitor to Jamaica. The government of Colombia has resources to invest in the port and is aggressively acting to position itself as a logistics leader.

Within Jamaica, three zones in particular could potentially compete with the CSEZ for tenants—Kingston Wharves Free Zone, Naggo Head Technology Park (planned), and the anticipated CHEC industrial estates. Kingston Wharves Free Zone has the potential to both compete with and complement the CSEZ. Both zones could attract companies that desire close access to the port. Kingston Wharves, however, would be able to charge a higher premium based on its portside location. This could allow the CSEZ to be used by companies that don't necessarily need to be directly adjacent to the port. The Naggo Head Technology Park has been in the pipeline for a number of years, and it was once anticipated that it would be developed together with the Caymanas Economic Zone under one tender. If the Naggo Head is developed by FCJ, this would diminish demand for a technology/office park setting within the CSEZ. Little is known about CHEC's plans to develop industrial parks in the Portland Bight area, but if developed they do have the ability to undermine demand for space in the CSEZ.

It is recommended that the CSEZ Feasibility Study take all competing locations into account, and possibly examine demand for ICT/BPO within a CSEZ development with scenarios that include Naggo Head and CHEC developments, and scenarios that do not.

2.4 Recommendations Based on Preliminary Market Assessment

Engage Potential Developers (July 2015 – 2016)

SEZ developers are most likely to consist of a consortium of dynamic investors, often including a real estate partner, financial partner, and partner with industrial development experience in the host country. Issuing a tender for a private developer will be more effective if the GoJ has first familiarized itself with the types of enterprises that could potentially play a role in the development of the CSEZ.

Annex 5 of this report contains a questionnaire that the Enterprise Team or SEZ Steering Committee can use to help facilitate consultations with potential SEZ developers. The consultations need not take the form of formal interviews. They can be informal conversations, fact-finding workshops, face-to-face meetings, telephone calls, etc. This will promote and exchange of ideas and information between potential developers and GoJ, and will also help spur the building of consortia to eventually bid on a tender for development of the CSEZ project. Furthermore, through understanding the business model and challenges faced by developers, the GoJ can better craft a developer agreement when it comes time to engage a private sector firm in a PPP or other development arrangement.

The SEZ Steering Committee should carefully consider the requirements that will be placed upon developers as part of the SEZ developer/operator application. Table 2 – 1 of this chapter provided some examples of what other zone regimes around the world require. The application process should not become too onerous on the private sector. However, there should be minimum standards that applicants must demonstrate, particularly with regard to financial viability of the project, environmental and social safeguards, and security measures than minimize smuggling from the SEZ site.

Conduct the CSEZ Feasibility Study (August 2015 – October 2016)

Table 2 – 4 listed industries with potential to locate in the CSEZ. A full feasibility study is required to better ascertain the types of industries that would likely locate in the CSEZ, and the particular demand for land and services over a 20-year period. That will help establish exactly how much of the CSEZ site needs to be developed, and the specific *type* of facility it should be—e.g. warehousing park, office/ICT park, etc. Annex 3 contains a TOR that can be used to tender a firm to conduct a feasibility study for the zone. The Enterprise Team should issue the RFP in August 2015.

Engage Private Sector (July – August 2015)

The SEZ Steering Committee should address concerns of the private sector when designing the new SEZ regime. These include:

- Reforming Customs procedures as they pertain to how Customs operates in SEZs;
- Address infrastructure needs of potential CSEZ zone users. For instance, the Phase 2 and 3 expansions of the Soapberry Wastewater Treatment Plant could include an industrial waste pretreatment phase. This would make the CSEZ a very attractive location for firms that would normally need to have their own pre-treatment package plant on-site, and it is a service for which Soapberry could charge zone users.
- Consider the spectrum of enterprises within the whole scope of the GLHI. Some industries actually require portside location, and that real estate can generally be offered at a greater premium than locations such as the CSEZ that are further afield. Within the context of the Logistics Hub, the CSEZ is important because it will free up space in zones such as Kingston Wharves for logistics-based companies that truly require port access. Therefore, it is important to understand not only the demand for potential industry sectors within the CSEZ, but also within the greater GLHI. Annex 4 of this report contains a TOR that can be used to tender a Market Analysis and Master Plan for the GLHI, which will place the CSEZ within the proper context of the Logistics Hub.

ASSESSMENT OF PROJECT



3. Assessment of Caymanas Special Economic Zone Project

This chapter examines the proposed Caymanas Special Economic Zone project. It provides an overview of the existing site context, and initial analysis of the physical characteristics and infrastructure available to the site. It also provides potential development scenarios for the CSEZ, and high-level recommendations on the appropriate private or PPP development model for the zone.

This assessment is not a substitute for a thorough feasibility study, which requires more detailed civil engineering and site analysis, demand forecast, master plan, costing, and financial analysis. Rather, the proposed CSEZ location was examined for the purpose of highlighting potential opportunities and constraints of the site. Photographs of the CSEZ site and surrounding location are included in Annex 2 of this report.

3.1 Site Location

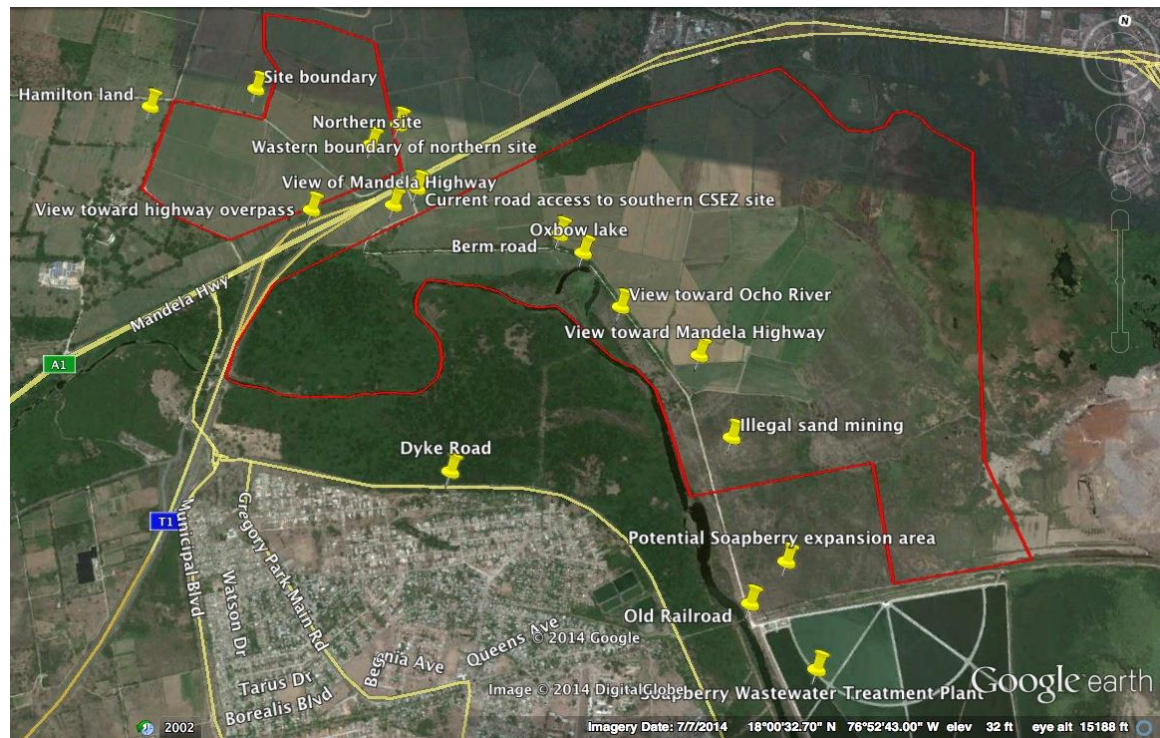


Figure 3-1 Map of proposed site for the CSEZ. Site boundaries are outlined in red.

The site proposed for the CSEZ is located along Mandela Highway in St. Catherine Parish, between Kingston and Spanish Town. The site is approximately 1,400 acres (566.56 hectares), and divided by Mandela Highway. The 200-acre (80.94-hectare¹¹) “North Site” is bounded by Mandela Highway to the south, privately owned pastureland to the west, and reserved farm roads to the north and east. The approximately 1,200-acre (485.62-

¹¹ Actual area as surveyed on June 30, 2010 by Courtney P. Fletcher, Commissioned Land Surveyor, for UDC.

hectare) “South Site” is bounded by Mandela Highway to the north, Rio Cobre to the west, Soapberry Wastewater Treatment Plant and old Jamaica Railway Corporation (JRC) line to the south, and Riverton City Dump and Fresh River to the east.

3.2 Surrounding Context

Immediate Surroundings of CSEZ Site

The CSEZ site sits within the 10,704-acre (4,331.76-ha) Caymanas Estates Development Area (CEDA), which is owned by the Urban Development Corporation (UDC). It sits between the communities of Portmore (population: 182,000) to the southwest and Spanish Town (population: 160,000) to the west. The Caymanas Estates Development Plan (CEDP) outlines a broad development concept for the CEDA, in which 46 percent of lands are earmarked for residential, commercial, recreational, and industrial uses; the remaining 54 percent of CEDA lands will be set aside as forest and wetland reserves. The CSEZ site is the designated industrial area based on the CEDP.

Northwest of the CSEZ site is the Caymanas Golf and Country Club, Caymanas Country Club Estates housing development, and agricultural farm and pasturelands that are slated for future residential, commercial, and recreational uses, according to the CEDP. It is the goal of UDC and the government of Jamaica to attract private enterprises

to develop each of the areas in the CEDA, including the CSEZ.

The land bordering the western boundary of the CSEZ “North Site” is privately owned, and has not been acquired by UDC. Nonetheless, the CEDP anticipates that this land will eventually be developed into a residential area. Because of the proximity to future residential developments, the CSEZ “North Site” might be best suited for clean industries—light assembly, business process outsourcing (BPO), information and communication technology (ICT), and others. At the very least, care should be taken to ensure that sufficient green barriers exist between residential populations and industrial activities of the CSEZ.

On its southern and southeastern sides, the CSEZ site is adjacent to significant waste projects such as the Soapberry Wastewater Treatment Plant and Riverton City Dump. Therefore, the adjacent areas of the CSEZ are not suitable to food processing or other industries that require odor-free clean environments.

Global Logistics Hub Initiative Context

The CSEZ is anticipated to be one of several nodes within Jamaica’s Global Logistics Hub Initiative. Figure 3-2 highlights proposed sites related to or within the GLHI, including the following:

- **CSEZ Site.** Proposed site for the Caymanas Special Economic Zone, situated just northwest of the Kingston Container Terminal (KCT), and outlined in red in the map in Figure 3-2, on the next page;
- **Vernamfield.** 2,900-acre (1,173.59-ha) site proposed for a future cargo airport, warehousing facility, and industrial center;
- **Goat Island.** CHEC Port Site. Proposed location for a port developed by China Harbour Engineering Company (CHEC);
- **CHEC Logistics Park Site.** Proposed location for logistics parks envisioned as part of CHEC's development;
- **Norman Manley International Airport.** Proposed expansion of existing airport to handle greater passenger and cargo traffic;
- **Cow Bay.** Proposed deep water site for development of a commodity port;
- **Kingston Harbor Channel Upgrade.** Channel dredging and upgrading to accommodate post-Panamax size vessels;
- **KCT.** Kingston Container Terminal, currently under the process of privatization through a PPP concession;
- **Kingston Wharves.** Private bulk handling port and free zone;
- **Kingston Free Zone.** Publicly owned free zone adjacent to KCT;
- **Tinson Pen.** Proposed location for expansion of port, warehousing, and industrial processing areas.



Figure 3-2 Map of CSEZ within context of Global Logistics Hub Initiative proposed sites. Proposed CSEZ boundaries are outlined in red.

3.3 Access to Transportation Infrastructure

Transportation connections and linkages are key to the future success of the CSEZ. The CSEZ site is linked by road to downtown Kingston—approximately 7.5 miles southeast (12 km) via Mandela Highway and Spanish Town Road—and to Spanish Town—approximately 4.5 miles (8 km) west via Mandela Highway and Main Road. The site is 5.5 to 8 miles (9 to 13 km) from Kingston Container Terminal (KCT) via Mandela Highway to Spanish Town Road or Mandela Highway to Dyke Road and Port Kingston Causeway. The zone is 20.5 miles (33 km) from Norman Manley International Airport via Dyke Road/Port Kingston Causeway/Highway A4/Norman Manley Blvd. If plans by MIIC to develop Vernamfield as an air cargo hub come to fruition, the CSEZ will be 38 miles (61 km) from this airport, via Highway T1/A2/Foga Road.

Mandela Highway is a four-lane dual carriageway (divided highway) “main road” with wide shoulders¹². The National Works Agency (NWA) has plans

to widen Mandela highway to six lanes. Designs and financing are already in place, and construction will occur in 2015. Dyke Road is a two-lane single

¹² See Figures A2 – 31 and A2 - 32 in Annex 2.

carriageway (undivided highway) that runs roughly along the southwest boundary of the CSEZ South Site. As its name suggests, the road runs along the top of a dyke, which protects neighborhoods to the west in Portmore from the flooding Rio Cobre. The road was recently rehabilitated and is covered in smooth tarmac¹³. Though Dyke Road is in very good condition, it is limited to two lanes, has little or no shoulder, and does not likely have the carriage capacity to serve heavy traffic between the port area and CSEZ in the long term. Because

the road is built upon a dyke, it cannot be easily widened without significant earthworks. If developing the South Site of the CSEZ proves feasible, it might be

possible to construct a road connection directly into the zone from Dyke Road, thus reducing the travel distance to the port by about 2.5 miles (4 km).

The remnants of the Jamaica Rail Corporation line run along the southern border of the zone site. The government of Jamaica investigated rehabilitating the railway under PPP concession, which would provide a rail link between the CSEZ site and Tinson Pen/KCT area. However, an initial Business Case Study found that a stand-alone concession of the JRC railway network was not commercially viable without a significant direct government subsidy, and is therefore not justifiable at this time.¹⁴

3.4 Site Characteristics

Ownership

The CSEZ site is located on lands that have historically operated as a sugar plantation since the 18th century. The land is wholly owned by UDC, and is included in its Caymanas Estates Development Plan as “Light Industry/Manufacturing” (North Site) and “Enterprise Zone” (South Site). UDC has committed the 200-acre (80.94-hectare) “North Site” to Factories Corporation of Jamaica (FCJ) to develop as an economic zone, though no transaction has yet taken place. UDC has not committed the CSEZ South Site to FCJ. In its current state, the commercial land value of the North Site is approximately J\$6 to 7 million per acre (US\$51,767 to 60,395 per acre), which is US\$12.79 to 14.92 per square meter. The market value of land on the South Side would be less than this.¹⁵

Development History

FCJ conceptualized the idea to develop an economic zone on the north side of Mandela Highway in 2007/2008. The zone would have mainly catered to local industries, with a component for

international companies. FCJ developed a two-phase conceptual master plan for the economic zone, consisting of roadways, green areas, and layout of one-acre (4,046.86-square meter) plots, and desired to enter a joint venture with

¹³ See Figures A2 – 15 and A2 - 16 in Annex 2.

¹⁴ World Bank Group, “Jamaica Railways Rehabilitation Concession—Interim Business

Case”, Draft Final Report to the Development Bank of Jamaica. June 2013.

¹⁵ Estimates of commercial land values provided by UDC.

an international developer to develop the zone. In 2009, MIIC issued an invitation for Expressions of Interest for the 100-acre Phase 1 of the “Caymanas Economic Zone (CEZ)”. In December 2012 FCJ issued a Request for Proposal (RFP) that bundled the CEZ project with the Naggo Head Information Technology Centre in Portmore together in one tender. It was anticipated that the winning bidder would enter into a joint venture with FCJ, and develop the CEZ as well as construct office buildings at Naggo Head.

Ten bidders provided proposals, and the short-listed preferred bidder was a joint venture between investors in China, United States, India, and Jamaica.¹⁶ The bidder was short-listed partly based on its

ability to finance its proposal, construct and operate a captive power plant on-site, and bring clients from Asia in the electronics, light manufacturing,

assembly, and distribution sectors. The bidding process, however, was subject to the approval of Cabinet, which declined to give its support to the short-listed firm. Rather, the Jamaican Cabinet wanted to include the Caymanas project within the wider context of the Global Logistics Hub Initiative. It thus instituted an Enterprise Team to examine how a Caymanas zone could better complement the GLHI.

Factories Corporation of Jamaica has not remained in contact with the entities that submitted proposals in 2013 to develop the Caymanas Economic Zone.¹⁷ The cancellation of the bid could pose special challenges for Jamaica, and make it more difficult to attract private developers in the future. Developers often invest a lot of financial and human resources in proposal preparation. Investors communicate with one another, and a canceled bid or failed investment can become widely known among the investor community.

Topography and Vegetation

The CSEZ site is located atop a flat alluvial plain consisting of clay, with layers of dispersed sand and gravel deposits. The top 30 meters of ground function as an aquifer. The “North Site” is entirely planted in sugarcane¹⁸. The “South Site” has is also planted in sugarcane in the northwest portion, bordering Mandela Highway¹⁹. The far western edge of the “South Site” along the Rio Cobre is a mix of woodland, tall grasses, and thick vegetation²⁰. The southern and eastern portions of the “South Site” are covered in bushes and other thick natural vegetation²¹. The land in these sections of the site consists of significant sand deposits, and illegal sand mining has left the landscape pocketed with holes and mounds of soil.

Drainage

The natural drainage pattern for storm water is north away from Mandela

¹⁶ Source: FCJ.

¹⁷ *Ibid.*

¹⁸ See Figure A2 – 10 in Annex 2.

¹⁹ See Figure A2 – 33 in Annex 2.

²⁰ See Figure A2 – 35 in Annex 2.

²¹ See Figure A2 – 34 in Annex 2.

Highway toward Moses Lake, northeast of the site. There is a major risk of flooding within the CEDA including the specific site identified for the CSEZ. The general area involves two main drainage paths: 1) Fresh River or Ferry River drainage path—main drainage channel from the CEDA; and 2) Salt River or Duhaney River Drainage Path—main drainage channel for Southwestern St. Andrew Parish areas. The Fresh River converges with the Duhaney River, which empties into the Hunts Bay. Specifically flooding occurs in the region of the Mandela Highway/Fresh River crossing, regions south of the highway, and areas contiguous to the Salt River / Duhaney River discharge.

The regulating agencies have indicated that the following must be addressed prior to approval for full-scale development of the CEDA, including the CSEZ: 1) Fresh River channel dredging to remove growth and blockages accumulated over time; 2) Mandela Highway crossing improvements such as raising the roadway and widening the

bridge on the northern lanes; 3) Duhaney River channel dredging to remove growth and blockages; and 4) Protect Southern Wetlands—the inundation model for the 100-year flood average recurrence interval (ARI) confirms the need to retain wetlands to mitigate flooding effects. Further drainage and hydrology analyses are required, including design and civil works construction of flooding remediation measures.²²

Air Quality

The National Environment and Planning Agency (NEPA) has raised concerns about the quality of the airshed at the proposed CSEZ site. The Caymanas area has known challenges with air quality, partially resulting from the landfill east of the South Site. The dumpsite is subject to spontaneous combustion and deliberate fires, which pollutes the air of the surrounding area. There is a concern that industries in the area would add additional pollutants to the airshed.

3.5 On/Off-Site Infrastructure and Utilities

Power

Seven years ago, a study predicted that the power load for the entire CEDA (residential, commercial, industrial, etc.) would be 60MW. A feasibility study, however, is required to more accurately estimate the power demands from the Caymanas Special Economic Zone.

Jamaica Public Service (JPS) stipulates that if demand is greater than 20MW, a direct line is required into an electrical substation. In Jamaica, the government

does not normally pay for the cost of such interconnections. The zone developer would need to pay for the connection up front. If other entities

²² The Terms of Reference (TOR) for the Caymanas Special Economic Zone Feasibility Study includes a hydrology study and design and

costing of flooding remediation measures. The TOR is included in Annex 3 of this report.

utilize the connection, there is a cost recovery mechanism such as a 50/50 scheme or processes to recovery the investment over time.

The Caymanas site had been offered to JPS for additional power generation infrastructure. JPS, however, rejected the idea of bringing a liquefied natural gas line across Hunts Bay to the zone due to the extra risk it presents to residential populations in the vicinity. Independent power producer, Jamaica Private Power, has also shown interest in locating a generation facility in Caymanas.

Based on existing infrastructure, power for the CSEZ could potentially come from one of two electrical substations—Doheny or Tredegar—operated by JPS. Power lines that currently cross the CSEZ site feed directly into the Doheny Substation to the east of the zone. However, Doheny is not a favored substation, according to JPS. Doheny has a 24 KV, 280 MVA interbus capacity. The substation has a peak power flow capacity of 150 MVA. Doheny is the largest load center on the Jamaican power grid, and experiences frequent bottlenecks. A number of system shutdowns are caused by faults of the single bus station on both the 138 KV and 69 KV lines. The single bus station has low reliability because a failure of a single circuit breaker or a bus failure causes loss of the entire substation, and maintenance switching can complicate

Water

A feasibility study is required to determine the demand for water in the CSEZ. The National Water Commission (NWC) has installed a water pipeline across the Caymanas area. The line enters the CEDA from the west along Belvedere to Ferry Road and goes across to the Caymanas Golf and Country Club. From there, the line goes down to

and disable some of the protection schemes and overall relay coordination. Ultimately, Doheny should be a breaker-and-a-half substation with two buses energized during normal operations, and three circuit breakers for every two circuits—allowing higher reliability and shutdown of one breaker without interrupting service on the corresponding exiting feeder.

The more reliable Tredegar Substation is located five miles to the west of the CSEZ site in St. Catherine’s Parish. It operates with 230 MVA interbus transformers. Power flows are 50 to 60 MVA during peak operating periods. Though Tredegar is far more reliable than Doheny, it is much more difficult to install new infrastructure lines into the substation because of the dense residential population in the area.

Installation of a captive power plant inside the CSEZ is an option, and connection of a captive power plant to the national grid is legal. Though sale of captive power to JPS is a relatively new arrangement, they are seeing an increase in it. JAMALCO, for instance, has its own 30 to 40 MVA station, and sells excess to the grid. JPS does not encourage captive power plants, however, because they subtract from their demand base and make it more challenging to recover their own power generation and distribution investment costs.

Portmore along Municipal Blvd. The pipeline was sized to handle existing water flows of 14 million imperial gallons (63,645.26 cubic meters) per day, *plus* an additional 15 million imperial gallons (68,191.35 cubic meters) per day to meet projected future demand. Developers will be required to pay for connections to the main line, or pay NWC up front or in three to four installments.

Though new lines are in place, the current water *supply* from NWC is not sufficient to meet the current and future demands of the CEDA, including the CSEZ. NWC has identified a property for a new water treatment plant west of Caymanas, and has begun an abstraction study to take 20 million imperial gallons (90,921.8 cubic meters) of water per day from Rio Cobre. Opposition to the plan has come from the National Irrigation Commission (NIC), which is also vying for water resources from Rio Cobre. Thus, the plan for a new water treatment facility has been taken off the books, and is not in the capital budget for this year or next year.

There are no water wells within the CSEZ site boundary. No successful wells can be developed within the site, and the southern portion of the site consists mostly of clay, which does not yield water to wells. The Water Resources Authority (WRA) is not granting licenses for new wells or increased abstraction of existing wells, as all water has been

allocated, and over-abstraction has resulted in salinity issues in wells.

There are some existing wells to the north of the CSEZ site that tap a limestone aquifer. The production from limestone wells is greater than that from alluvial wells, but the water quality is more degraded. Chloride concentration from the limestone aquifer varies from 200mg/L to 450mg/L. There is interference between wells, and the over pumping of the limestone wells has led to saline intrusion; hence, the elevated chloride concentration. The alluvial wells have elevated chloride concentration, but much less than the limestone wells. The landowner, UDC, expects to redesign the limestone well field and reduce abstraction to control salinity. If this is successfully accomplished, the volume of water that could be safely abstracted from the limestone wells is approximately 5 million to 6 million imperial gallons (22,730.45 to 27,276.54 cubic meters) per day.

Wastewater Treatment

The Soapberry Wastewater Treatment Plant borders the CSEZ to the south. The current capacity is 20 million imperial gallons (90,921.8 cubic meters) per day, and the plant is operating at 80 percent capacity. NWC is in the process of diverting wastewater from small package plants it owns in Portmore to Soapberry. When the diversion is completed in 2016, Soapberry will be operating at maximum capacity. Soapberry has room for expansion of two additional modules. When constructed, Modules 2 and 3 will increase the plant's daily capacity by an additional 40 million imperial gallons (181,843.6 cubic meters). There are currently no plans, however, to expand Soapberry, and expansion is not in the capital budget for next year.

The pumping lines to Soapberry are pressure lines, so they cannot be tapped at any place along the line. Therefore, the CSEZ would need to construct its own direct line to Soapberry at its own cost, even though an existing line runs through the site. If additional users in the CEDA need to connect to Soapberry, then a new design will have to be done that incorporates an additional pumping station. Soapberry is designed to handle domestic, not industrial waste, so wastewater from the CSEZ may require pre-treatment. It might be possible to design a pre-treatment phase into the Module 2 and 3 expansions, though this has not been considered by NWC.

Telecommunications

Fiber optic telecommunication lines surround the entire country of Jamaica, and urban core areas are all well served by infrastructure. Two submarine cables come ashore at Bull Bay (Flo) and Prospect (Lime). Fiber lines run along Mandela Highway through the CSEZ site. The Logistics Hub Initiative’s ICT Group has recommended that the CSEZ be pre-wired by all three internet service providers—Flo, Lime, and Digicel. Digicel already has a disaster recovery site within the CEDA²³.

The Ministry of Science, Technology, Energy, and Mining has plans to install an Internet exchange point (IXP) installed in Caymanas to increase the speed of Internet traffic in the vicinity. An IXP is a switch through which internet service providers (ISPs) exchange Internet traffic. It avoids the need for data to travel to a third party provider—often in another country in the case of Jamaica—to get from one network to another. IXPs increase the speed of traffic while saving costs. A few ISPs have already signed up to participate in the IXP switching system. The cost of the switch for Caymanas would be approximately US\$ 10,000.

3.6 Summary of Key Development Features and Challenges

This section summarizes the key advantages and disadvantages of the CSEZ site, based on an initial assessment by the consultant. The CSEZ site will require a feasibility study to fully understand the market demand for land, infrastructure, and utilities, and the costs associated with the development challenges described below. As part of the feasibility study, the CSEZ should be designed and developed using Jamaican or international best practice standards for environmental and social protection, utilizing all necessary instruments such as EIAs, local stakeholder and community consultation, proper resettlement policies, if applicable. The zone design should utilize green technologies and limit the impacts of climate change.

Development Features

The CSEZ site has the following important development advantages:

²³ See Figure A2 – 8 in Annex 2 for a photograph of the Digicel Station.

- **Serviced industrial infrastructure.** There is an extreme shortage of serviced industrial infrastructure in the greater Kingston area. The CSEZ will likely be able to capture a lot of future demand for land and industrial buildings in the Kingston area. Kingston Free Zone (KFZ) is operating at 98 percent capacity, with only 50,000 square feet (4,645.15 square meters) of building space still available, and the future of the zone is in question with the future expansion of KCT and development of the GLHI. Jamaica International Free Zone is at 90 percent capacity, and Garmex Free Zone has only 22,000 square feet (2,043.87 square meters) of space available. Furthermore, 85 percent of FCJ’s industrial space throughout Jamaica is filled to capacity.
- **Sustainable and Green Solutions.** The CSEZ has the potential to utilize and showcase sustainable green solutions in its design, development, and operation, thus limiting the environmental and climate change impacts.²⁴ Sustainable options for the CSEZ could include energy efficient building designs, efficient uses of water and secondary uses of treated wastewater, preferential tariff treatment for energy-efficient vehicles, use of solar panels and renewable source of energy, and greenhouse gas limitations.
- **Important Node in Global Logistics Hub Initiative.** The CSEZ can form an important node of the GLHI.²⁵ The areas immediately surrounding KCT—Kingston Free Zone, Tinson Pen and areas north, area west of KCT West Berth—should be developed and dedicated for logistics and transshipment clients who require direct access to KCT. Given its distance of 9 to 13 kilometers from KCT, the CSEZ will not likely be the first best location for the primary logistics players. However, the zone can act as a secondary ring of the GLHI, attracting packaging facilities, short and long-term warehousing, assembly, BPO, ICT, and other uses that do not require direct port access. The CSEZ can also act as an industrial relocation area for companies that might be displaced from KFC or the Tinson Pen area as the Logistics Hub develops and evolves.
- **Telecommunications.** The Caymanas area will be pre-wired by all three major telecommunications companies in Jamaica—Lime, Flo, and Digicel. The site will contain an IXP, allowing for faster connectivity in the vicinity. This is extremely important for industries such as ICT and BPO, and also necessary for logistics providers and real-time transmission of information to Customs.

Development Challenges

The CSEZ has some important development challenges. Chief among them is the lack of off-site infrastructure. No matter if the CSEZ is developed through an internationally advertised PPP tender or through unsolicited private initiative, infrastructure challenges need to be urgently addressed by the government. Failure to do so will likely result in the unviability of the project.

²⁴ A call for green solutions in the development of the CSEZ was included in the TOR for the CSEZ Feasibility Study, included in Annex 3 of this report.

²⁵ Figure 3-2 contains a map of primary sites under consideration for inclusion in the GLHI.

- **Power Availability.** Supplying the CSEZ with reliable power will be a challenge. The lines that currently cross the site feed into the Doheny Substation, which experiences frequent bottlenecks and system shutdowns. Tredgar Substation to the west of the site is reliable, but more difficult to connect to. The government of Jamaica needs to carefully liaise with JPS so that they can plan for the anticipated power needs of the CSEZ.
- **Water Availability.** There is currently no water available to serve the CSEZ site. NWC has insufficient supply, and is vying with other stakeholders such as NIC to extract and treat additional water from Rio Cobre. Limestone wells owned by UDC could conceivably offer an alternate source of water. However, at present, these wells have saline intrusion and elevated chloride levels. A redesign of the limestone well field is required, but might still not guarantee adequate water supply for the CSEZ and surrounding CEDA.
- **Wastewater Treatment Capacity.** Soapberry Wastewater Treatment Plant has no surplus capacity to serve the CSEZ. There is land available for two additional treatment modules, though no plans or budget currently exist for expansion of the plant. This needs to be immediately addressed by the government of Jamaica, particularly in light of all the new potential development associated with the GLHI.
- **Potential for Flooding.** Portions of the CSEZ site might be prone to flooding. Additional hydrology and drainage studies are required to design remediation measures and determine if these are financially feasible within the scope of the CSEZ project. The hydrology study should be conducted as part of the CSEZ Feasibility Study²⁶. This needs to be carefully studied to determine a) the portions of the CSEZ site that are actually suitable for development; b) the earthworks and civil engineering remediation measures required to develop the land; c) the costs associated with such measures; and d) the effects of the cost on the commercial and financial viability of the CSEZ project. This viability is important to determine whether the project is developed through a PPP arrangement or whether the CSEZ is developed by an unsolicited private developer.
- **Traffic.** Though Mandela Highway will be widened to six lanes in 2015, additional road improvements may be required for Dyke Road. The road is currently in good shape, but does not have the carriage capacity for cargo traffic between KCT and the CSEZ over the long term.
- **Flora and Fauna.** NEPA suggests that additional studies should measure the impact on flora and fauna biodiversity at the CSEZ site, noting that there may be crocodiles, birds, and other species that could be affected by development.
- **Potential Competition from proposed CHEC Zone Development.** China Harbour Engineering Company (CHEC) is exploring options to develop a transshipment port at

²⁶ Annex 3 includes the TOR for the CSEZ Feasibility Study, and includes a hydrology study task.

- Goat Island and two industrial zones in the Portland Bight area. If developed, there is potential that these zones could provide competition to the CSEZ. This will need to be reflected in the demand forecast during the CSEZ Feasibility Study.
- **Potential Competition from Naggo Head Tech Park Development.** The government of Jamaica has earmarked a section in Naggo Head in Portmore for the construction of a 21-acre (8.50-ha) technology park to attract and house companies in the ICT and BPO sectors. If developed, the Naggo Head Tech Park would provide competition to the CSEZ insofar as the CSEZ could potentially include a section with facilities like offices suitable for ICT and BPO. It is currently anticipated that FCJ will develop and operate the tech park as an SEZ, beginning development in 2015. FCJ anticipates that the tech park will initially include 120,000 square feet (11,148 square meters) of office building space, eventually increasing to 750,000 square feet (69,677 square meters). However, FCJ currently does not feel it is in a position to fully fund the venture itself, and is still working out financing details. The project is expected to initially cost US\$45 million, plus an additional US\$60 million for infrastructure, including an on-site power generation facility.
 - **Expectations of CSEZ as Vital to GLHI Success.** Some stakeholders expect that the CSEZ will be responsible for the growth of the larger Global Logistics Hub Initiative. There are few examples of projects around the world, however, where the SEZ successfully served as the impetus for the growth of an entire region. SEZs have enough work to provide infrastructure and services to the companies located within their walls without burdening them with the growth of an entire region. Exceptions to this have been large, urban SEZ projects such as the Shenzhen SEZ in China, which encompasses an entire large urban municipality, and required 30 years to develop. The Government of Jamaica should at least consider other economic tools (e.g., reforming Customs, creating a regulatory environment conducive to logistics and transshipment, strengthening value chains in a specific sectors, etc.) that are not spatially oriented.
 - **Effects of Cancelled CEZ Bid.** In 2013, the Jamaican Cabinet failed to give its approval to the shortlisted preferred bidder for the development of the Caymanas Economic Zone. Though the government has no remaining legal obligations to any of the bidders, the cancelled bid could make it more difficult to attract private developers for the current CSEZ project. Investors communicate with one another, and a canceled bid or failed investment can become widely known among the investor community.

3.7 Development Scenarios for the CSEZ

The development of the CSEZ could take numerous forms, based on the types of companies interested in locating in the zone, specific demand for land and facilities, type of development arrangement (eg. PPP, long-term lease, private sale), and the overall GLHI master plan. This section discusses various development scenarios, and their potential effects on zone user demand and financial risks placed on the government of Jamaica.

Box 3 – 1: CSEZ in the Context of the GLHI

The GLHI Market Analysis and Master Plan will recommend how the CSEZ project should be phased in relation to other properties. The CSEZ is an important node in Jamaica’s Global Logistics Hub Initiative, but it is not the only potential project that warrants development in the near to medium term. The properties adjacent to and surrounding KCT are arguably more important for logistics and transshipment activities because they offer portside access demanded by many companies. It is not an ‘either/or’ proposition; the CSEZ is also important for the GLHI, but in different ways. The CSEZ, for instance, might attract the types of firms that rely less on direct port access. A premium can then be charged for land and facilities that do offer direct access to KCT. When and how the CSEZ is developed will be guided by both the GLHI Market Analysis and Master Plan and the CSEZ Feasibility Study.

Effects of the GLHI Master Plan on the CSEZ Project

The CSEZ project is one element of Jamaica’s Global Logistics Hub Initiative. Other potential “nodes” in the GLHI system include KCT, Norman Manley International Airport, Kingston Wharves, lands adjacent to and surrounding KCT, Vernamfield former air base in Clarendon, Goat Island and Portland Bight proposed port and industrial areas, and other ports and properties throughout the country. (See Figure 3 – 2 for a map

of these proposed GLHI nodes.)

The manner in which the GLHI is developed will affect demand for investors—zone developers and zone users—in the CSEZ. The GoJ will soon issue an RFP for a GLHI Market Analysis and Master Plan. As outlined in the TOR in Annex 4 of this report, the study will produce a master plan and phased development strategy for individual projects within the Logistics Hub area. The CSEZ is a valuable node in the GLHI, so the master plan and strategy are important to the CSEZ’s own development outcomes.

Table 3 – 1, on the next page, shows five potential development scenarios for the GLHI, and the potential resulting impacts on CSEZ demand. For instance, in Scenario 1, the KCT is expanded by the private concessionaire. The lands adjacent to the port—Tinson Pen, Kingston Free Zone, area adjacent to West Berth—are also developed in the near term as SEZs for the benefit of logistics and transshipment businesses. In this scenario, however, neither Vernamfield nor Goat Island are developed as air or sea ports. This is one of many possible development scenarios that could result from the GLHI master plan.

Private and PPP Development Options for the CSEZ

Table 3 – 2 presents seven scenarios for the development of the CSEZ, along with the likely private or PPP contracting options recommended to achieve the scenario. Each type of contracting mechanism is associated with financial and other risks to the GoJ, along with potential benefits. The matrix is meant to be an illustrative—not exhaustive—list of development possibilities. All the scenarios assume that there is market demand to support that particular development option, as evidenced in a proper feasibility study.

The development scenario that potentially leaves the GoJ the most financially exposed is Scenario 3, in which FCJ purchases the UDC land, and enters into a joint venture agreement to develop the CSEZ. This is the FCJ’s current intended development scenario. This option maximizes the GoJ’s capital investment risk, maintenance risk, replacement risk, and collection risk. On the positive side, as a project shareholder, GoJ could benefit from a share of CSEZ revenues. Though this scenario represents a positive step toward involving private sector equity

Table 3 – 1: Potential GLHI Development Scenarios and Effects on CSEZ Demand

Scenario	Development of KCT	Lands Adjacent to and Surrounding KCT	Clarendon/Vernamfield/Goat Island	Effects on CSEZ Demand
1	KCT expanded	Land west of KCT West Berth and areas northeast of KCT between Marcus Garvey Drive and Spanish Town Road, including Kingston Free Zone and Tinson Pen, are developed as SEZs for logistics, transshipment, and other zone users.	Not developed	Scenario has positive and negative effects on CSEZ. On one hand, SEZs adjacent to port would compete with CSEZ for demand. On other hand, CSEZ could be a site for relocation of Kingston Free Zone tenants, and provide useful initial revenues for developer. Dislocation of KFZ tenants might severely disrupt businesses and involve compensation claims, and potentially result in tenants facing higher lease rates in the CSEZ than they paid in the KFZ.
2	KCT expanded	Not developed in short to medium term	Not developed	CSEZ would benefit from no competition from SEZs in the direct port vicinity, except for Kingston Wharves.
3	KCT expanded	Land west of KCT West Berth and areas northeast of KCT between Marcus Garvey Drive and Spanish Town Road, including Kingston Free Zone and Tinson Pen, are developed as SEZs for logistics, transshipment, and other zone users.	Vernamfield developed, with associated air logistics SEZ	In addition to effects of Scenario 1, development at Vernamfield would have its own positive and negative aspects. On one hand, greater air logistics activities in Jamaica could increase demand for space at CSEZ from firms that don't need direct airport access. On the other hand, the airport-based SEZ could compete for zone users with the CSEZ.
4	KCT expanded	Land west of KCT West Berth and areas northeast of KCT between Marcus Garvey Drive and Spanish Town Road, including Kingston Free Zone and Tinson Pen, are developed as SEZs for logistics, transshipment, and other zone users.	<ul style="list-style-type: none"> • Vernamfield developed, with associated air logistics SEZ. • CHEC develops Goat Island and adjacent industrial zones. 	In addition to effects of Scenario 1, CHEC's industrial zones could compete with CSEZ for zone users. More information is required about the nature of the CHEC port and industrial zones to make a more precise determination.
5	KCT not expanded	Not developed in short to medium term.	<ul style="list-style-type: none"> • Vernamfield developed, with associated air logistics SEZ. • CHEC develops Goat Island and adjacent industrial zones. 	If the whole GLHI moves to the Goat Island/Clarendon area, as this scenario suggests, then there will be little demand from logistics and transshipment companies in the CSEZ. The CSEZ could still potentially attract local companies seeking industrial space near Kingston.

in the development of SEZs, it does totally move the GoJ away from public development of SEZs.

Based on existing information and analysis of the CSEZ project, the development and contracting options that are most likely to reduce GoJ risk, while realistically attracting a private developer are, are in Scenarios 4, 5, and 6. These are outlined in red in Table 3 – 2. The scenarios all involve the development of an industrial park on land sold or leased by UDC to a private developer. Scenarios 4 and 5 involve a PPP concession contract between GoJ and a developer, which would afford the GoJ more control in establishing the character of the SEZ than Scenario 6, which involves a simple long-term (non-PPP) land lease contract. Scenario 5 differs from the other two in that it requires greater financial participation by the GoJ, particularly in terms of off-site infrastructure connections, low-interest financing, and the like. The financial analysis portion of the CSEZ feasibility study may point to this as being a necessary condition for a private developer to achieve an acceptable IRR on the project.

Mitigating Risk Associated with SEZ Development Projects

Under-management of risk is a typical problem throughout the lifecycle of an SEZ development project. Typical infrastructure project risks include cost overruns, delays with start-up, insufficiency of private financing, and projects that do not address stated national policies and goals. One problem is that project risks do not get properly allocated to the parties that are the best “risk owners”—ie. those which have the best capability to absorb the risk. In the case of SEZs, for instance, the government is often the best risk owner for development issues related to off-site infrastructure and social infrastructure developments. The private sector, on the other hand, is often the best risk owner of on-site capital development and zone operations.

Each development scenario presented in Table 3 – 2 assumes that GoJ takes ownership of the off-site infrastructure risks. The scenarios describe the financial liabilities and risks that GoJ must take in order to render the site “developer-ready”. Regardless of whether the CSEZ is developed via an unsolicited offer by a private developer, through a PPP, or by the GoJ itself, the requisite upgrades include:

- Upgrade Soapberry Wastewater Treatment Plant suitable for treating forecasted volumes of effluent from CSEZ;
- Build additional water treatment plant to supply piped water to CSEZ;
- Electrical sub-station upgrades necessary to supply reliable power to the CSEZ based on forecasted demand by zone users;
- Drainage mitigation measures necessary to curtail flooding in the CEDA.

3. ASSESSMENT OF CSEZ PROJECT

Table 3 – 3 lists the types of risks inherent in an SEZ development project, and places risk ownership with the party that has the superior capability to absorb it. The column on the right describes ways in which PPPs and other contracting mechanisms can address each risk from the perspective of the government and private developer.

Table 3 – 2: PPP and Private Development Scenarios for the CSEZ, and Associated Risks

Scenario Description	Type of Contract	Financial Commitment and Risk to Government and Private Sector	Strengths and Weaknesses of Scenario
1 Entire 10,704-acre (4,331.76-ha) CEDA is developed as an SEZ, much like Panama Pacifico SEZ. SEZ would have industrial space, commercial and retail space, educational space, recreational facilities, and high and mid-range residential areas (much like the CEDP already shows).	Concession with a master developer, with long-term (eg. 50 yrs) development rights and investment obligations. ²⁷	<p>GoJ financial commitment:</p> <ul style="list-style-type: none"> • New water treatment plant • Power station upgrade • Soapberry expansion • Road upgrades <p>Funding for drainage mitigation could be negotiated with master developer</p> <p>GoJ other risks:</p> <ul style="list-style-type: none"> • Complexity of master developer concessions for large multi-use SEZs • High PPP transaction costs to GoJ <p>Private master developer financial commitment and risks:</p> <ul style="list-style-type: none"> • Funding all on-site development of zone, including earthworks, roadways, buildings and structures, and on-site utility connections and on-site power generation (if any); • Drainage mitigation in CEDA; • Assume all revenue risk of project, including risk of meeting development targets as specified in concession agreement. 	<p>Strengths</p> <ul style="list-style-type: none"> • GoJ benefits from sale/lease of UDC land. • CEDA is developed as a unified project, without need to search for individual developers for each project in the CEDP. <p>Weaknesses</p> <ul style="list-style-type: none"> • Complexity of master developer contracts • Jamaica currently does not have as much of a unique selling proposition as Panama Pacifico had—ie. airport, seaport, location along Canal. • Would be difficult under current circumstances to find a single developer for all of CEDA. Developer would need to be good at managing a golf course, industrial park, housing estates, etc. and there are not many who are good at all. • Golf course, housing, etc. does not likely require SEZ status to succeed.
2 All the GLHI industrial and logistics sites in the vicinity of KCT (ie. Caymanas, Tinson Pen, area adjacent to KCT West Berth, etc.) are bundled and developed as a single non-contiguous SEZ.	Concession with a master developer, with long-term (eg. 50 yrs) development rights and investment obligations. ²⁸	<p>GoJ financial commitment:</p> <ul style="list-style-type: none"> • New water treatment plant • Power station upgrade • Soapberry expansion • Road upgrades • Drainage mitigation in CEDA <p>Other GoJ risks:</p> <ul style="list-style-type: none"> • Complexity of master developer contracts <p>Private master developer financial commitment and risk:</p> <ul style="list-style-type: none"> • Funding all on-site development of zone, including earthworks, roadways, buildings and structures, and on-site utility connections and on-site power generation (if any) • Assume all revenue risk of project, including risk of meeting development targets as specified in concession agreement. 	<p>Strengths</p> <ul style="list-style-type: none"> • GoJ benefits from sale/lease of UDC land. • Development of GLHI sites in vicinity of KCT are developed in a unified and phased manner, without the risk of one SEZ detracting from demand of another. <p>Weaknesses</p> <ul style="list-style-type: none"> • Complexity of master developer contracts • Lack of competition in SEZ offerings to prospective SEZ users. • Master developer could “cherry pick” most lucrative GLHI sites, and ignore others. <p>Master developer contract could limit creative uses of GLHI sites demanded by market but not part of contract.</p>

<p>3 CSEZ land²⁹ is purchased by FCJ, and developed as a joint venture with private sector partners.</p>	<p>Creation of special purpose vehicle (SPV) to form a joint venture between FCJ and private partners.³⁰</p>	<p>GoJ financial commitment:</p> <ul style="list-style-type: none"> • Partial forgone cost of selling/leasing land • Portion of on-site capital development costs • Portion of on-site operating costs • Portion of on-site maintenance costs • Portion of on-site replacement costs • New water treatment plant • Power station upgrade • Soapberry expansion • Road upgrades • Drainage mitigation in CEDA <p>Other GoJ risks:</p> <ul style="list-style-type: none"> • GoJ remains in role of SEZ developer • Overestimation in market share revenues accruing to GoJ; • Unforeseen costs of development <p>Private master developer financial commitment and risk:</p> <ul style="list-style-type: none"> • Partial funding on-site development of zone, including earthworks, roadways, buildings and structures, and on-site utility connections; • Shared revenue risk with GoJ 	<p>Strengths</p> <ul style="list-style-type: none"> • Offers much needed private equity to develop CSEZ; • FCJ is experienced in operating industrial property in Jamaica, which could be beneficial for non-Jamaican equity partners of joint venture. • GoJ benefits from portion of revenues from SEZ operation. <p>Weaknesses</p> <ul style="list-style-type: none"> • This option poses greatest financial risk to GoJ. • Does not move GoJ away from public development and operation of SEZs; • Private sector partners could increasingly demand greater level of control over operations commensurate with their own financial and business risks.
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4	<p>CSEZ land leased to private sector developer chosen in competitive bidding process, with specific terms and obligations for developer. GoJ commits no financial participation in project</p>	<p>Concession with developer, with long-term (eg. 50 yrs) development rights and investment obligations.³¹ Private developer carries</p>	<p>GoJ financial commitment:</p> <ul style="list-style-type: none"> • New water treatment plant • Power station upgrade • Soapberry expansion • Road upgrades • Drainage mitigation in CEDA <p>Other GoJ risks:</p>	<p>Strengths</p> <ul style="list-style-type: none"> • Offers much needed private equity to develop CSEZ; • GoJ benefit from lease of UDC land; • GoJ gets a percentage of developer revenues; <p>Weaknesses</p>
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²⁷ Details of this type of concession arrangement are presented in the Panama Pacifico Case Study 1 in Annex 1 of this report.

²⁸ The concept of a non-contiguous SEZ is similar to the Colón Free Zone in Panama. It is divided in two large areas—one located in Colón, and the other in the harbor area.

²⁹ References in this matrix to “CSEZ land” specifically refers to the 1,400-acre (567-ha) “North Site” and “South Site” as defined in this chapter.

³⁰ Details of a joint venture between the government and private company for the purpose of developing and operating an SEZ are presented in the Thilawa SEZ Case Study 4 in Annex 1 of this report.

³¹ Details of this type of concession arrangement are presented in the Aqaba International Industrial Estate (AIIE) Case Study 2 in Annex 1 of this report. In the case of the AIIE, however, initial capital investment costs were provided through a grant from USAID.

	other than off-site infrastructure upgrades.	revenue risk for project. GoJ receives percentage of zone revenue as per concession agreement.	<ul style="list-style-type: none"> Potential for private developer to not take development risks beyond what is stated in concession. <p>Private master developer financial commitment and risk:</p> <ul style="list-style-type: none"> Funding all on-site development of zone, including earthworks, roadways, buildings and structures, and on-site utility connections and on-site power generation (if any) Assume all revenue risk of project, including risk of meeting development targets as specified in concession agreement. 	<ul style="list-style-type: none"> With no financial contribution by GoJ, project might not be financially feasible for private developer. Private developer might require additional GoJ subsidy for project feasibility. <p>Additional note</p> <ul style="list-style-type: none"> Concession agreement needs to give developer enough time and flexibility to make money, and find own niche.
5	CSEZ land leased to private sector developer chosen in competitive bidding process, with specific terms and obligations for developer. GoJ commits resources for off-site infrastructure connections, low-interest financing, ³² and/or other financial contributions, as specified in concession agreement.	Concession with developer, with long-term (eg. 50 yrs) development rights and investment obligations. Private developer may share some revenue risk for project with GoJ, depending on terms of concession agreement. GoJ receives percentage of zone revenue as per concession agreement.	<p>GoJ financial commitment:</p> <ul style="list-style-type: none"> Off-site utility connections Low-interest financing for developer New water treatment plant Power station upgrade Soapberry expansion Road upgrades Drainage mitigation in CEDA <p>Other GoJ risks:</p> <ul style="list-style-type: none"> Potential for private developer to not take development risks beyond what is stated in concession. <p>Private master developer financial commitment and risk:</p> <ul style="list-style-type: none"> Partial or full funding on-site development of zone, including earthworks, roadways, buildings and structures, and on-site utility connections and on-site power generation (if any) Assume all revenue risk of project, including risk of meeting development targets as specified in concession agreement. 	<p>Strengths</p> <ul style="list-style-type: none"> Offers much needed private equity to develop CSEZ; GoJ benefit from lease of UDC land; GoJ gets a percentage of developer revenues; GoJ gains from interest off loan to developer. Could be option that provides private developer with suitable IRR. <p>Weaknesses</p> <ul style="list-style-type: none"> Requires initial financial contribution by GoJ <p>Additional note</p> <p>Concession agreement needs to give developer enough time to make money, and be flexible enough so developer can find own niche markets.</p>
6	CSEZ land leased or sold to private sector developer, whether chosen in competitive bidding process or not. GoJ commits no financial	Long-term lease or sale of land between UDC and developer. Private developer carries 100% development and	<p>GoJ financial commitment:</p> <ul style="list-style-type: none"> New water treatment plant Power station upgrade Soapberry expansion Road upgrades 	<p>Strengths</p> <ul style="list-style-type: none"> Offers much needed private equity to develop CSEZ; GoJ benefit from lease or sale of UDC land; GoJ gets a lease fee from developer;

³² The DBJ is currently unable to finance projects such as the CSEZ. A change in policy would be required to facilitate such a transaction. Furthermore, the current ceiling of DBJ loans is US\$ 5 million with a term of eight years. Based on interviews with SEZ developers, this ceiling is too low, and term is too short, for financing large infrastructure projects such as SEZs.

	<p>participation in project, other than off-site infrastructure upgrades.</p>	<p>revenue risk for project. GoJ receives a lease fee from developer.³³ Scenario does not fall under PPP policy.</p>	<ul style="list-style-type: none"> • Drainage mitigation in CEDA <p>Other GoJ risks:</p> <ul style="list-style-type: none"> • Private developer not obligated to develop SEZ in a manner consistent with GoJ or GLHI priorities. <p>Private master developer financial commitment and risk:</p> <ul style="list-style-type: none"> • Funding all on-site development of zone, including earthworks, roadways, buildings and structures, and on-site utility connections and on-site power generation (if any) • Assume all revenue risk of project, including risk of meeting development targets as specified in concession agreement. 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Without a concession agreement, GoJ loses some control over what is developed on CSEZ site; • With no financial contribution by GoJ, project might not be financially feasible for private developer.
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7 CSEZ land sold to private sector developer. Project is 100% initiative of private sector. GoJ commits no financial participation in project, other than off-site infrastructure upgrades.

Sale of land between UDC and developer.³⁴ Scenario does not fall under PPP policy.

GoJ financial commitment:

- New water treatment plant
- Power station upgrade
- Soapberry expansion
- Road upgrades
- Drainage mitigation in CEDA

Other GoJ risks:

- Private developer not obligated to develop SEZ in a manner consistent with GoJ or GLHI priorities.

Private master developer financial commitment and risk:

- Funding all on-site development of zone, including earthworks, roadways, buildings and structures, and on-site utility connections and on-site power generation (if any)
- Assume all revenue risk of project, including risk of meeting development targets as specified in concession agreement.

Strengths

- Offers much needed private equity to develop CSEZ;
- GoJ benefit from sale of UDC land;
- This option poses least financial risk to GoJ.

Weaknesses

- Without a concession agreement, GoJ loses some control over what is developed on CSEZ site;

³³ A zone with this type of lease arrangement is the Que Vo Industrial Park, presented in Case Study 3 in Annex 1 of this report.

³⁴ SEZs in El Salvador, Dominican Republic, Costa Rica, and other countries operate on this type of private developer-led initiative. Case Studies of the Philippines and El Salvador and Philippines SEZ regimes are presented in Cast Studies 6 and 7 in Annex 1 of this report.

Table 3 – 3: Ownership and Mitigation of Development Risks

Type of Risk	Risk Ownership	Risk Mitigation Measures vis-à-vis PPPs
Off-site infrastructure Investment	Government	Government ownership of this risk reduces capital investment risk to private developer. Government could lessen its own risk through utilizing PPPs for infrastructure upgrade projects—ie. Soapberry Wastewater Treatment Plant.
Social infrastructure	Government	Government sometimes mitigates this risk by passing it on to private developers: 1) PPP concession to master developer to include social infrastructure in SEZ master plan (as in Scenario 1 in Table 3 – 2), or 2) Licensing an Urban Support Area developer, as per GoJ’s SEZ Policy. Perhaps, however, the ownership of the risk best lies with the GoJ. The Ministry of Transport, Works, and Housing has been critical of the idea of the Urban Support Area because it appears to be fulfilling all the functions of the government in its provision of social amenities.
Capital development Revenue collection	Private developer Private developer	Government risk can be nearly eliminated by the following: <ul style="list-style-type: none"> • Private development of SEZ, with government land sale, but no contractual arrangement or obligation; • Development concession arrangement; • Long-term lease. Government risk can be partially eliminated by the following: <ul style="list-style-type: none"> • Joint venture participation in an SPV to develop zone (still leaves government financially exposed in all three risk areas);
Maintenance and replacement	Private developer	<ul style="list-style-type: none"> • BOT arrangement (leaves government financially exposed in revenue collection, maintenance, and replacement risks at end of project period); • Management contract with operator (leaves government financially exposed for capital development and maintenance and replacement risks).

4. CREATING A NEW SEZ REGIME FOR JAMAICA

Type of Risk	Risk Ownership	Risk Mitigation Measures vis-à-vis PPPs
PPP transaction	Government and Private developer	<p>The following development options are listed from most complex to least complex. More complex transactions have higher associated costs to gov't and developer.</p> <ul style="list-style-type: none"> • PPP concession for complex multi-use or multi-faceted system of SEZs (Scenarios 1 and 2); • Joint venture arrangement between GoJ and private firm (Scenario 3); • PPP concession for a long-term lease for a single industrial zone site; • Long-term lease to private developer as part of public tender; • Long-term lease to private developer; • Sale of land to private developer. <p>Transaction costs can be minimized by choosing a less complex contract arrangement. Creating conditions conducive to 100% private SEZ development will eliminate PPP transaction risk. These conditions can be maximized if the government takes risk ownership of off-site and social infrastructure development, education and training, among other things.</p> <p>Though PPPs have higher transaction costs and risks, they are more likely to ensure that the SEZ project meets the GoJ's stated goals and objectives for the CSEZ project. Concessional contracts allow the government to impose performance targets and obligations on private developers. However the government should ensure that its targets and obligations are realistic, so as not to transfer undue risk to the developer.³⁵ If the concession arrangement does not reflect the uncertainty and risks to the developer over the life of the SEZ project, then the results could be an increase in the cost of financing, greater need for sovereign guarantees or government bailout, or risk of project failure.</p>
Policies and objectives	Government	

³⁵ Case Study 2 in Annex 1 of this report discusses lessons learned in the case of performance goals in the Aqaba International Industrial Estate. The performance goals the government sets as part of the concession should provide a reasonable amount of time for the concessionaire to attract tenants. This was echoed in discussions with SEZ developers in the Caribbean region, who stated that a minimum of four years were required for a developer to be in a position to pay creditors or concession obligations to the government.

Necessity for a Feasibility Study for the CSEZ

Too often, governments fail to select the optimal PPP structure ahead of the developer procurement stage, making it difficult to adjust the risk or responsibility once the project has started. A feasibility study helps find the optimal ownership of risk based on the capacity and appetite of the government and private sectors to take it on.

When a feasibility study is undertaken for an SEZ, there is already a vague idea of the intended character of the project. The GLHI Master Plan will place the development of the CSEZ within the greater context of the Logistics Hub. Once the general development phasing of the Logistics Hub is established, a feasibility study for the Caymanas SEZ project can commence. The feasibility study will replace the vague notions surrounding the project with specific answers to the following questions:

1. *What types of businesses are likely to locate in the zone?*
2. *How many businesses will locate in the zone over a period of 20 years? How many people will they employ? How much water and power will they use? How much land and other facilities will they use?*
3. *What are the advantages and limitations of the SEZ site?*
4. *What infrastructure upgrades are necessary to make the site “developer-ready”?*
5. *What environmental and social problems are associated with developing the SEZ site?*
6. *What does the preliminary design and master plan look like for the SEZ?*
7. *How should development of the SEZ be phased?*
8. *How much will it cost to develop the SEZ? How much will it annually cost to operate the SEZ?*
9. *How much revenue can the SEZ expect to take in each year?*
10. *What is internal rate of return (IRR) a private developer can expect to achieve if the SEZ is developed according to the master plan?*
11. *What type of government participation is required in order for a private developer to achieve an acceptable IRR?*
12. *What is the cost of the project to the government over a period of 20 years?*
13. *What is the economic rate of return (ERR) to the government?³⁶*
14. *What is the development scenario that maximizes IRR to the private sector while minimizing the financial risk to the government?*

As the above list demonstrates, a CSEZ feasibility study will position the GoJ in the “driver’s seat” of the project—understanding all the parameters, limitations, challenges, and opportunities afforded by the CSEZ site and project. This will allow the GoJ to come to the negotiating table for meaningful discussions and engage the private sector developer as an equal partner in the development process.

³⁶ The ERR is an oft overlooked—though very important—element in a feasibility study. It provides a comparison of the costs and benefits of a public investment. Estimating the ERR of the CSEZ will offer the GoJ a forecast of the projected likely impact on government finances and Jamaican economy as a whole.

Annex 3 of this report contains a TOR for a feasibility study for the Caymanas Special Economic Zone. The TOR represents international best practices, and was designed and drafted for the specific context of the CSEZ project. Each task described in the TOR is intended to provide answers to one or more the 14 questions listed above. It is therefore recommended that the full TOR be included in an RFP, without the removal or postponement of any of the tasks.

3.8 Two Studies: GLHI Market Analysis and Master Plan versus CSEZ Feasibility Study

Study Focus

Jamaica’s Ministry of Industry, Investment, and Commerce intends to pursue two studies related to the GLHI and CSEZ. The GLHI Market Analysis and Master Plan will ultimately create a long-term urban plan for the entire Logistics Hub “system”. The CSEZ feasibility study, on the other hand, will provide a design for a specific project, and determine how to make the project feasible through private or PPP development scenarios. Table 3 – 4 highlights the different foci of each study.

Table 3 – 4: Outcomes and Objectives of the GLHI and CSEZ Studies

	GLHI Market Analysis and Master Plan	CSEZ Feasibility Study
Study outcome	A long-term urban plan that provides land use designations to shape the growth of the GLHI in the medium and long terms.	Design of a specific project within the GLHI, including recommendations on how to make the project feasible utilizing private or PPP development strategies that minimize the risk to the GoJ.
Objectives of study	<ol style="list-style-type: none"> 1.Highlight industry sectors most likely to locate in the GLHI areas; 2.Suggest and define “GLHI” nodes, such as seaports, airports, SEZs, etc. 3.Parcel GLHI “nodes” into suggested “projects” that can be developed over the next 10 to 15 years; 4.Create a long-term urban plan (master plan) that identifies general land uses over entire GLHI area to shape the long-term growth of the hub. 	<ol style="list-style-type: none"> 1. Project the number of companies in a various industry sectors that would likely locate in the CSEZ over a period of 20 years; 2. Assess the physical CSEZ site and availability of off-site infrastructure, and note development challenges; 3. Create a master plan that provides details for developing the specific CSEZ project including on-site roads, utilities, buildings, etc; 4. Project the capital development and operating costs associated with the CSEZ project; 5. Determine financial viability of project, which minimizes GoJ risk and maximizes return to private sector developer.
End user of study	MIIC, via the GLHI Task Force, and also PIOJ.	MIIC, via the CSEZ Enterprise Team, and also, ultimately the SEZ Authority and UDC as land asset holder.
Study does not....	1.Provide feasibility of individual “projects” identified within the GLHI;	1. Limit the CSEZ to only serving GLHI objectives (ie. transshipment and logistics).

GLHI Market Analysis and Master Plan

- 2. Provide IRR or ERR for specific GLHI “projects”;
- 3. Provide an EIA for specific GLHI “projects”.

CSEZ Feasibility Study

Strategy for Tendering Studies

There is some overlap of the GLHI and CSEZ studies, particularly with respect to the Market Analysis portion of each TOR.³⁷ It is possible, therefore, that there could be synergies for contracting the two studies together through a single tender and single consultancy. Table 3 – 5 discusses the benefits and detriments of conducting the studies separately or together.

Table 3 – 5: Advantages and Disadvantages of Tendering Studies Together/Separately

	Tender GLHI and CSEZ Studies Separately	Tender GLHI and CSEZ Studies Together
Study Focus	<p>Benefit: Each study remains dedicated to its specific focus: 1) GLHI focus on medium and long-term urban plan; 2) CSEZ focus on feasibility of specific project.</p>	<p>Detriment: Risk that unique focus of two studies is lost, especially risk that CSEZ is treated as one of many GLHI “nodes”, and does not get the in-depth focus it needs to determine financial viability and robust private and PPP options.</p>
Market Analysis Overlap	<p>Benefit: Market analysis portion of two studies is <i>not</i> an exact overlap, as the GLHI market analysis focuses on transshipment and logistics, and the CSEZ market analysis is broader—potentially ICT, BPO, education, etc. Tendering studies separately allows CSEZ market analysis team to go into greater depth needed to project demand for CSEZ project.</p> <p>Detriment: Two contractors’ learning curves with respect to understanding market.</p> <p>Caution: If the studies are separately tendered, the CSEZ Feasibility Study cannot simply omit its own market analysis and utilize that produced by the GLHI study contractor. The CSEZ study team will need to collect its own data and do its own market analysis so that it achieves an organic understanding of the market in order to project demand for the CSEZ. This cannot be accomplished by reading a market analysis report done by another contractor.</p>	<p>Detriment: GLHI study market analysis is broader, and focuses on logistics and transshipment.</p> <p>Benefit: Take advantage of single contractor’s learning curve with respect to understanding market.</p>

³⁷ The TORs for the CSEZ Feasibility Study and GLHI Market Analysis and Master Plan are contained in Annexes 3 and 4 of this report.

	Tender GLHI and CSEZ Studies Separately	Tender GLHI and CSEZ Studies Together
Effects of GLHI Study on CSEZ Study	<p>Neutral: The CSEZ study requires information from the GLHI study, namely, the recommended development phasing of various GLHI “nodes”. Once this is established, the CSEZ study can proceed. Therefore, CSEZ study should be lagged in order to benefit from GLHI Phase 1 findings. If CSEZ study is lagged, then effect of separate studies is neutralized.</p>	<p>Neutral: The work on CSEZ demand forecast must wait until Phase 1 of GLHI study is completed, in order to measure the effect on CSEZ demand of the phasing of GLHI development “nodes”.</p>
Timing	<p>Detriment/Neutral: Results from CSEZ study would take two to three months longer than if two studies tendered together.</p>	<p>Benefit/Neutral: Results from CSEZ portion of study could be available two to three months earlier than if studies tendered separately. However, CSEZ study is likely a shorter study than the GLHI study, so tendering two studies together would not likely shorten period of final GLHI/CSEZ combined deliverable.</p>
Cost	<p>Detriment: US\$ 20,000 to 40,000 more expensive, since there is some overlap in the market analysis portion of each study.</p>	<p>Benefit: US\$ 20,000 to 40,000 less expensive, since market analysis (the primary overlapping feature of each study) can be undertaken by one contractor.</p>
Personnel	<p>Benefit: CSEZ study gets its own dedicated personnel, whose focus is not detracted by other parts of the GLHI.</p>	<p>Detriment: Contractor would likely spread personnel thin, and CSEZ portion of study may lose its focus.</p>
Risk	<p>Detriment: Lose benefits of personnel common to both studies.</p> <p>Benefit: Benefit of spreading risk for studies to two separate consultancies.</p> <p>Benefit: If the GLHI study makes a recommendation that drastically minimizes demand for the CSEZ (such as Scenario 5 in Table 3 – 1), then the CSEZ Feasibility Study could be canceled.</p>	<p>Benefit: Advantages to having personnel common to both portions of the study.</p> <p>Detriment: Places risk of both studies on shoulders of a single consultancy.</p> <p>Detriment: If the GLHI study makes a recommendation that drastically minimizes demand for the CSEZ (such as Scenario 5 in Table 3 – 1), then the CSEZ portion of the combined study would still remain part of the contracted Consultant’s TOR.</p>

3.9 Recommendations Based on Initial Assessment of CSEZ Project

The following are recommended as actions required in the immediate term, with regard to developing the CSEZ as an anchor node of Jamaica’s Global Logistics Hub Initiative.

Ensure All Relevant Stakeholders Sit on Enterprise Team (June 2015)

The Enterprise Team should immediately be expanded to include all agencies with a stake in the development of the CSEZ. This includes the land asset holder, UDC, along with public utilities such as JPS, NWC, WRA, and telecommunications providers. The presence of representatives from these agencies is required to ensure that a comprehensive conversation takes place regarding the feasibility and development of the CSEZ.

Issue RFP for GLHI Market Analysis and Master Plan (June 2015)

The GoJ should immediately commence the GLHI Market Analysis and Master Plan, which will develop the long-term urban plan for the Logistics Hub, and determine the role and development phasing of the CSEZ within the overall GLHI. The outcome will impact the potential demand for the CSEZ in the short, medium, and long terms. It is recommended that the GoJ issue an RFP for the study using the TOR provided in Annex 4 of this report.

Issue RFP for CSEZ Feasibility Study (August 2015)

The CSEZ Feasibility Study is crucial for understanding the precise development advantages and disadvantages of the specific CSEZ site, and associated costs and revenues. It will find the optimal levels of GoJ financial participation and risk necessary to make the project viable from a private developer's perspective. It is recommended in the immediate term that the GoJ issue an RFP for the feasibility study, using the TOR included in Annex 3 of this report. Each task in the TOR is important for understanding the market demand for the CSEZ, creation of an appropriate zone design, and understanding the costs, revenues, and risks associated with the project. As such, no individual tasks in the TOR should be eliminated or postponed.

The GLHI Market Analysis and Master Plan and CSEZ Feasibility Study can be undertaken according to one of two options, as discussed in Section 3.8:

1. Separately contracted studies, in which the CSEZ Feasibility Study lags the start of the GLHI Market Analysis by two to three months. By lagging the start of the CSEZ Feasibility Study, the contracted Consultant can be briefed by the GLHI study team on the direction that the Logistics Hub Master Plan and development phasing will take. This is important for gauging the demand for land and facilities in the CSEZ, as described in Table 3 – 1.
2. Single study contracted by a single consultancy. If the two TORs, included in Annexes 3 and 4 of this report, are tendered together, the specific work on the CSEZ site would still need to lag Phase 1 of the Logistics Hub analysis because the specific phasing of the CSEZ site within the Logistics Hub context will affect demand for land and facilities in the CSEZ.

Upgrade Off-Site Infrastructure (2015 – 2017)

Off-site infrastructure upgrades are an area where the GoJ needs to take risk ownership. The initial assessment of the CSEZ project noted specific site and infrastructure upgrades that are necessary to render the site "development-ready". If the CSEZ project is to move forward, then the government should plan and fund the following upgrades in the short and medium terms. This is the case regardless of who develops the zone or what specific private or PPP contracting mechanisms are used.

- **Power.** Supplying the CSEZ with reliable power will be a challenge due to frequent bottlenecks and system shutdowns at the Doheny Substation. The government of

Jamaica needs to carefully liaise with JPS so that they can plan for the anticipated power needs of the CSEZ.

- **Water.** The current water *supply* from NWC is not sufficient to meet any anticipated demand from the CSEZ. Plans for a new water treatment facility have been postponed due to opposition from the National Irrigation Commission. The GoJ must examine options for additional water supply to the Caymanas area, and include it in the next capital budget.
- **Wastewater treatment.** Expansion of Modules 2 and 3 of the Soapberry Wastewater Treatment Plant is required to increase the plant's daily capacity by an additional 40 million imperial gallons (181,843.6 cubic meters). GoJ should include Soapberry expansion in the capital budget for the next fiscal year in order to meet the demands of the CSEZ and other GLHI-related projects.
- **Drainage infrastructure.** Additional hydrology and drainage studies are required of the CSEZ site, and should be conducted as part of the CSEZ Feasibility Study. The studies will determine a) the portions of the CSEZ site that are actually suitable for development; b) the earthworks and civil engineering remediation measures required to develop the land; c) the costs associated with such measures; and d) the effects of the cost on the commercial and financial viability of the CSEZ project

CREATING A **NEW** SEZ REGIME FOR **JAMAICA**



4. Creating a New SEZ Regime for Jamaica

Jamaica's SEZs must be grounded in the firm foundation of an SEZ regime rooted in best practices. The cornerstones of this foundation are the SEZ Law, regulations, and associated institutions created to administer and regulate the new regime. This foundation will establish a model for SEZs that can be rolled out under the GLHI. This chapter examines some important best practice elements of an SEZ regime, which are required to ensure that Jamaican SEZs are attractive to transshipment, logistics, manufacturing, ICT/BPO, and other industries.

An SEZ Steering Committee is overseeing the design of the new SEZ regime, including the drafting of the new SEZ Law, which must be enacted by Parliament by December 31, 2015. The World Bank's FCG Project is funding a legal drafting expert to assist with the drafting of the SEZ Law and regulations.

4.1 Examination of Jamaica's SEZ White Paper

The SEZ Steering Committee, consisting of government, private sector, and union members, was established to create a foundation for the new SEZ regime, and examine the types of support mechanisms required for successful SEZs, particularly those developed as part of the GLHI. The result is a "Special Economic Zones White Paper for the Establishment of SEZs Under the Jamaica Logistics Hub Initiative". The White Paper identifies a broad array of policy issues that will impact the success of SEZs, and provides policy recommendations for various stakeholders. The SEZ White Paper is expected to be approved by Cabinet in July 2015.

The formulation of an SEZ policy is a best practice that many countries overlook when creating new SEZ regimes. Jamaica has placed a heightened importance on the broad policy ecosystem that

surrounds many aspects of successful SEZs, including labor and skills training, trade agreements, integration of micro, small, and medium-sized enterprises (MSMEs), linkages between SEZs and the greater Jamaican economy, issues of sustainability and climate change mitigation, and other important policy issues. In the White Paper, the SEZ Steering Committee not only provides policy recommendations in these and other important areas, but also identifies the entities with primary and secondary responsibilities to undertake these recommendations and provide for them in their annual budgeting process. Overall, this approach is a commendable best practice for creating the architecture for an SEZ regime.

Though the overall approach to the SEZ White Paper is very good, there are some areas that might benefit from improvements.³⁸ The following section

³⁸ The World Bank and International Monetary Fund (IMF) furnished comments to MIIC on Version 4.0 of the Draft SEZ Interim Policy.

notes instances where the SEZ White Paper might be inconsistent with best practices for SEZ regimes.

Focus on Logistics

A well-functioning SEZ regime is critical to the importance of the Global Logistics Hub Initiative. The SEZ White Paper places the SEZ regime squarely within the context of the GLHI. The Vision Statement, for instance, states, “Special Economic Zones – where globally competitive firms thrive, driving unprecedented growth and development for all in a logistics-centered Jamaican economy.” The emphasis on logistics within the vision statement, however, is at the peril of other industries that have found success and competitiveness under Jamaica’s free zone regime, namely the BPO sector, which receives little emphasis in the SEZ White Paper. This is, undoubtedly, concerning to developers that have invested in BPO-centered SEZs and to BPO ventures themselves. In short, much of the language in the SEZ White Paper regarding the vision and purpose of SEZs would be better placed

in a GLHI Policy. That would allow the SEZ White Paper to focus on the solid core fundamentals of an SEZ regime.

“Types” of SEZs

The SEZ White Paper lists a variety of “types” of SEZs, which will be promoted and facilitated as part of the new SEZ regime, such as “airport-based”, “port-based”, “dry dock”, “Caymanas SEZ”, etc. However, there are several problems inherent in creating zone “typologies” as a matter of SEZ policy. 1) There is no doubt that SEZs can and should be allowed in sea ports, airports, dry docks, etc. However, defining each as a “type” of SEZ implies that there will be legal and regulatory rules that make each of these types appreciably different from one another. They should all basically operate and function in the same manner. 2) The “Caymanas SEZ” and “Garmex Free Zone” are not SEZ “types”. Rather, they are specific SEZs. A better way to go about this would be to have the policy focus on *where* SEZs can be developed, rather than turning each location or specific zone into a *type* of SEZ.³⁹

Registration and Monitoring of Companies Outside SEZs

One noteworthy goal of the SEZ White Paper is to maximize the linkages between SEZs and the Jamaican economy. This is one feature of modern SEZs that sets them apart from the free zones of the past, which acted more like economic enclaves. Jamaica’s SEZ White, however, attempts to inject a layer of bureaucracy that might threaten economic linkages between SEZs and companies in the customs territory.⁴⁰ The White Paper states:

The Authority shall register and monitor the activities that will take place between the service and goods providers to the Developer, Operator and/or Occupants of

³⁹ The issue of dictating zone typologies was also observed in Russia, which had four restrictive categories of SEZs. This system hindered a great deal of investment in the country’s zones.

⁴⁰ Morocco is a case in point where companies located in SEZs procured their inputs, including office supplies, from Spain because it was too difficult to do so from the local market.

*the SEZ. Therefore, a mechanism will be created to facilitate the backward linkages into the domestic economy and allow for the ease of monitoring from a Customs law enforcement and tax compliance perspective of both goods and persons coming in and out of the SEZs.*⁴¹

The policy of the SEZ Authority “registering and monitoring” companies operating outside SEZs is potentially problematic on a number of fronts.

1. **Role of Customs.** The White Paper rightly suggests that movement of goods and persons in and out of a zone and the profits of SEZ users are important things to monitor and audit from a Customs and tax compliance perspective. However, the optimal way to do so is not to require registration of vendors outside SEZs. Rather, it is the role of Customs, not the SEZ Authority, to supervise movement of goods in and out of SEZs. Best practice in this regard is demonstrated by the role Customs plays in the U.S. Foreign-Trade Zone Program. This is highlighted in Case Study 8 in Annex 1. With respect to taxation, SEZ users must remain compliant with the laws of Jamaica with respect to accounting, tax payments, and audits. This is not a function that requires the SEZ Authority to register suppliers outside zones.
2. **Bureaucracy.** The White Paper is unclear about what “registration” of an activity entails. For instance, does each transaction between an outside supplier and SEZ company need to be registered? Would that registration process impede commercial transactions between companies? The registration and monitoring process could potentially add an additional layer of bureaucracy to doing business in an SEZ, which detracts from the intended goal of streamlining procedures for SEZs. It also extends the SEZ Authority’s regulatory reach to companies not located in SEZs. The focus should be on the *goods* that transit in and out of a zone, not the companies that provide them.
3. **Impedes privacy.** Many companies carefully guard their list of suppliers. Apple is one such firm that strictly protects its suppliers, lest competitors learn about Apple’s innovations or future products. Numerous tech blogs are devoted to trying to uncover the company’s suppliers. Any company that is sensitive about who it does business with outside the zone will not locate in a Jamaican SEZ because of this proposed policy. Again, the emphasis should be on Customs supervision of the *goods* entering and leaving an SEZ, not the firms that supply them.
4. **No facilitation of backward linkages.** Backward linkages between the SEZ and customs territory are important. However, the requirement that commercial activities between external suppliers and SEZ companies be registered does nothing in and of itself to enhance backward linkages.

⁴¹ “Special Economic Zones White Paper”, Ministry of Industry, Investment, and Commerce, June 2015, pp. 18-19.

5. **Advantages foreign companies.** The policy specifies that companies in the Customs Territory—not foreign suppliers—are subject to the registration and monitoring requirement. This disadvantages local firms because foreign ones are not bound by the registration requirements. This is inconsistent with the stated goal of maximizing linkages between the local economy and companies located in SEZs.

Treatment of SEZ Goods Sold in Customs Territory

The SEZ White Paper is rightly concerned that the SEZ regime should catalyze linkages with the local economy wherever possible. As such, the Policy states the following, “Goods produced in the SEZ should be treated in a like manner as imported goods in the event that they enter the customs territory,” and “Full customs duty, additional stamp duty, and GCT to be applied to sales from the SEZ into the domestic market.”⁴² However, as stated in this manner, this is only partially beneficial. In terms of application of the General Consumption Tax (GCT), the Policy is correct. The GCT should not be applied to goods sold to firms in SEZs, until which time those products are entered into the customs territory for sale on the local market.

As per the White Paper, 100 percent of the value of a good produced in a Jamaican zone is subject to Customs duties when the good is sold into the customs territory. However, the best practice is to levy duties on the value of the *imported content*, not the value of the entire product. When the entire

product is subject to import duties, then it creates a disincentive for companies to locate operations in Jamaica, as the product will be subjected to the same duties regardless of whether it is produced in Jamaica or a foreign country. It also induces a disincentive to utilize local materials, because they will incur the same duties as imported goods. This thus hurts, rather than encourages, linkages with the local economy. Case Study 8 in Annex 1 provides good examples of how sales to the customs territory are handled with respect to Customs duties in the U.S. foreign trade zones.

Consideration for Women-Owned Businesses

Women’s economic empowerment in SEZs is very important, particularly since women comprise the majority of workers in SEZs throughout the world. The World Bank has produced case studies and guidelines on how best to ensure fair employment and working conditions for women in SEZs, equal access to opportunities for professional advancement, and investment opportunities for female entrepreneurs.⁴³

⁴² “Special Economic Zones White Paper”, Ministry of Industry, Investment, and Commerce, June 2015, pp. 28, 35.

⁴³ *Fostering Women’s Economic Empowerment through Special Economic Zones: Comparative Analysis of Eight Countries and Implications for Governments, Zone Authorities, and Businesses*, IFC, in partnership with Canada and the World Bank Group Gender Action Plan, 2011. The document can be found on-line at <http://www.ifc.org/ReportWomenEconEmpowerment>

Jamaica's SEZ White Paper states, "Consideration will be given to women-owned businesses in the procurement of goods and general business development."⁴⁴ This is in the context of creating sustainable linkages between SEZs and the rest of the economy. The policy is unclear, however, as to exactly *which* entities are required to give consideration or as to what "consideration" actually means with respect to the SEZ regime. This warrants further clarification. It is recommended that the policy not specifically *require* SEZ users to procure goods from women-owned businesses. Rather, programs and other incentives that seek to enhance investment opportunities for female entrepreneurs are a better approach.

MSME Integration

The SEZ White Paper provides several policy recommendations for ensuring that MSMEs are integrated into SEZs and that linkages between SEZ users and MSMEs are maximized. One additional suggestion should be added to the list of policy recommendations. "Ensure that the infrastructure and service needs and demands of SMEs are reflected in the design and master plan for new SEZs." This will guarantee that feasibility studies for future SEZs will consider the demand for land and facilities by SMEs, if any, and ensure that SEZ master plans take SME infrastructure needs into consideration.

Incentives Contingent Upon Exports

In its transition from the free zone regime to the new SEZ regime, Jamaica is moving from a system of tax holidays toward performance and rules-based incentives that are applicable across all sectors. The SEZ White Paper recommends applying a 12.5 percent headline tax, and equal treatment for domestic and foreign companies. "Indirect exporter" status would be granted to domestic suppliers into an SEZ, and "extra-territorial" status granted to SEZ sales into the domestic market." A footnote goes on to clarify the following:

The indirect exporter status is applicable to those in the domestic market who supply to the SEZ. Their goods and/or services would be treated as exports since the recipient is extra-territorial and not part of the domestic customs territory. Hence, indirect exporters would receive the same treatment as for a domestic entity directly exporting to a foreign territory. These indirect exporters would have to be certified to receive this benefit and would be given the same treatment as a domestic entity directly exporting to a foreign territory.⁴⁵

It is a normal and best practice to treat goods sold from the customs territory into an SEZ as "exports". However, the above-stated policy could be problematic for several reasons. 1) Companies located in the domestic customs territory should not need to be "certified"

⁴⁴ "Special Economic Zones White Paper", Ministry of Industry, Investment, and Commerce, June 2015, p. 30.

⁴⁵ "Special Economic Zones White Paper", Ministry of Industry, Investment, and Commerce, June 2015, p. 32.

to sell into an SEZ. (See section above entitled “Registration and Monitoring of Companies Outside SEZs”.) It is the role of Customs to supervise merchandise that has been entered into an SEZ. 2) The policy intimates that there would be an incentive (ie. “benefit”) tied to exports, for which “indirect exporters” in the customs territory would also be eligible. This second point could potentially run counter to the WTO’s Agreement on Subsidies and Countervailing Measures. Incentives provided in SEZs are “subsidies” as per the Agreement.

“...a subsidy shall be deemed to exist if: there is a financial contribution by a government...where:...government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits)...”⁴⁶

Providing any type of incentive to exporting firms over other firms is a “prohibited subsidy” under the Agreement. This includes subsidies that are contingent upon incorporation into exported products.

“...the following subsidies, within the meaning of Article 1, shall be prohibited: (a) subsidies contingent, in law or in fact, whether solely or as one of several other conditions, upon export performance...”⁴⁷

The policy is silent on the exact type of “benefit” that direct and indirect exporters would receive. If the “benefit” is a lower tax rate, tax credit, deduction, tax deferral, lower fees, etc., then that benefit would constitute a prohibited subsidy under the WTO. If, by “benefit”, the policy means that “indirect exporters” would also be able to import materials duty-free, then that would not constitute a subsidy. However, that scenario is also problematic because of a potential lack of supervision by Customs. The first best choice in this regard would be for companies that desire the duty-free benefits to locate in an SEZ or acquire single-factory SEZ status.

Transition from Free Zones to SEZs

The SEZ White Paper notes that existing free zones—including stand-alone zones—must be transitioned from the old free zone regime to the new SEZ regime. The policy, however, is silent on exactly which aspects of the free zone regime should be grandfathered for current free zone users. Private sector free zone users interviewed for this report stated the following concerns with regard to the transition: 1) They would like clarity on the new SEZ regime as soon as possible so that they can plan and adjust their business models accordingly; 2) They are most concerned about the tax rate they will be subject to on January 1, 2016, as well as when and how their leases will be renewed under the new SEZ regime.

⁴⁶ Agreement on Subsidies and Countervailing Measures, Article 1 “Definition of a Subsidy”, Section 1.1. Under the Agreement, the definition of “subsidy” includes subsidies for commodities contingent on incorporation into exported products. The government of Jamaica is thus advised to proceed with caution when applying incentives or “benefits” to indirect exporters.

⁴⁷ Agreement on Subsidies and Countervailing Measures, Article 3 “Prohibition”, Section 3.1.

The current recommendation under discussion by the SEZ Steering Committee is to allow a limited transition, with a sunset period of two years for full transition. Some members of the SEZ Steering Committee questioned whether this grandfathering approach would be agreeable to the IMF. In discussions with the IMF for the purpose of this report, they stated that they have no objection to an approach that would grandfather existing free zone users, particularly if the new SEZ tax rate were phased in over time.⁴⁸

Eligibility Requirements

Enterprise Size. The SEZ White Paper suggests several eligibility criteria for SEZ users, including the size of an enterprise. It notes:

“Certain size criteria are being contemplated. These can be stated either in terms of size of expected initial investment, size of expected annual output, or size of expected annual exports, all in dollar terms.”⁴⁹

In a footnote, the White Paper goes on to clarify,

“Note that the expected size of the export is not to be confused with an export quota (in terms of a minimum share of output going to exports) – there is nothing in this requirement which specifies any restriction on the amount of output to be sold into the domestic market by an SEZ operator.”

The SEZ White Paper is correct to discuss size as a potential criterion for zone eligibility. SEZ regimes often use minimal capital investment as an eligibility requirement for SEZ users. Use of “expected annual exports” as a criterion, on the other hand, is problematic and likely runs counter to the WTO Agreement on Subsidies and Countervailing Measures. All assurances of the above-quoted footnote aside, the linking of SEZ eligibility to exports—combined with a financial benefit such as a tax incentive—would likely be considered an illegal subsidy, and would invite scrutiny by WTO members. It is therefore recommended that Jamaica not adopt “expected annual exports” as a criterion for SEZ eligibility.

Industry Sectors. The White Paper rightly notes the need to minimize revenue leakage due to the risk of firms migrating from the domestic territory to SEZs. As such, it suggests a negative list of industries, which would be prohibited from locating in SEZs. The negative list includes sectors that contribute significant shares of corporate tax revenues or sectors where the risk for tax leakage is high—ie. tourism, extractive industries, etc. However, the inclusion of some industries on the negative list should be reconsidered. For example:

- **Telecommunications services and public utilities.** The negative list could potentially preclude these entities from opening an office in and SEZ to serve

⁴⁸ Discussion, Mr. Jan Kees Martihn, Division Chief, Western Hemisphere Department, January 7, 2015.

⁴⁹ “Special Economic Zones White Paper”, Ministry of Industry, Investment, and Commerce, June 2015, p. 41.

customers in the zone. Similarly, a power provider could be forbidden from constructing and operating a power generation facility inside an SEZ;

- **Financial services.** Prohibiting financial services companies could prohibit banks and insurance companies from opening inside SEZs. Elsewhere in the world, however, it is considered best practice to allow bank branches to locate inside SEZs for the convenience of businesses and workers in the zone;
- **Real estate and property management services.** Preventing property managers from locating inside SEZs rules out the possibility of Jamaica developing large-scale SEZs similar to Panama Pacifico, whereby a master developer offers residential, commercial, and industrial properties to customers who locate or reside inside the zone;
- **Health services.** It is considered a best practice for SEZs to include a health clinic, which could potential be forbidden if the negative list includes “health services”;
- **Retail trade.** SEZs often contain retail stores and canteens for the convenience of businesses and workers in the zone.

The above-listed sectors provide important services to businesses and workers in SEZs, and should thus not be forbidden outright from operating in SEZs. In this regard, the SEZ Steering Committee would be wise to revise the White Paper to distinguish between the eligibility of specific sectors *locating* in and SEZ versus the eligibility to receive *preferential taxation*. In this respect, a bank branch would be able to locate in an SEZ, but would not be eligible for preferential benefits that zone status affords.

4.2 Drafting an SEZ Law and Regulations

The SEZ Steering Committee was thorough in its approach in the White Paper of understanding numerous policies important for creating a successful SEZ regime. The SEZ White Paper, however, provides little guidance on the detailed structure of the SEZ regime, such as how the SEZ Authority will function, how Customs will function in SEZs, and who is eligible to develop, operate, and locate in zones.

The keys to the success of Jamaica’s SEZ regime are the legal framework and the ability of institutions to administer the program—particularly the SEZ Authority

and Customs. The SEZ Steering Committee is charged with oversight of the drafting of the new SEZ Law and regulations, which must be enacted by Parliament by December 31, 2015. As per the SEZ Draft Policy, it is the goal of the Steering Committee to submit the draft SEZ bill and regulations to the Legislation Committee by September 2015, and have it approved by Cabinet in October.⁵⁰ The World Bank FCG Project has funded a legal drafting expert to draft an SEZ bill and regulations. The legal expert will work with the SEZ Steering Committee and attorney(s) at the Office of Parliamentary Counsel in the Ministry of Justice.

⁵⁰ SEZ Draft Policy, Version 5.0, p. 40.

The creation of a new SEZ regime is a complex and difficult process, which often requires months of inter-agency discussions, negotiations, and compromises. It is crucial, therefore, that the SEZ Steering Committee take immediate leadership in the process in order to achieve consensus among government ministries and private sector in advance of actually drafting the SEZ Law and regulations. Table 5 – 1 in Chapter 5 suggests a timeline by which the Steering Committee should proceed. In summary, the steps are described below.⁵¹

Procure SEZ Legal Expert (Completed)

MIIC worked with the FCG Project to procure an SEZ legal expert to assist in the drafting of the SEZ bill and regulations.

Establish SEZ Working Groups (June 2015)

In advance of the actual legal drafting, it is important for the government to reach a consensus on the architecture of the SEZ regime. To achieve this, it is recommended that the SEZ Steering Committee establish working groups, and engage relevant technical experts within government and the private sector. Possible working groups, and some of their associated areas of responsibility, include:

- **SEZ Board and SEZ Authority.** Make-up and functions of board, organizational structure and responsibilities of SEZ Authority, pay-scale for SEZ Authority staff, finances of the Authority;
- **Registration and Licensing.** Process for registration and licensing of developers and zone users;
- **SEZ Development.** Allowable SEZ locations, who can develop SEZs, process for developing and proclaiming new SEZs, private sector and PPP options for new SEZs, GoJ's role in SEZ development;
- **SEZ Operation.** Sale and lease of land in SEZs, allowable management and operations structures, allowable activities in SEZs, negative list;
- **Customs.** Role and duties of Customs in SEZs, movement of goods in and out of SEZs, sales to customs territory, application of duties on goods sold to customs territory, issues related to CARICOM and other trade agreements, aspects of Customs Law that require amendment for an efficiently functioning SEZ regime. This working group should be initiated and led by Jamaica Customs Department;
- **Taxation and Incentives.** Incentive system applicable to zone users, system for grandfathering existing free zone users who receive tax holidays;
- **Environment.** System of environmental protection in SEZs, responsibilities for audits of SEZ developers and zone users, issues of sustainability and climate change mitigation. This working group

⁵¹ Deadlines for the first five suggested tasks were originally recommended for the period February through May, 2015. As of the date of publication, the government of Jamaica had only completed the first task, "Procure Legal Team".

- should be led by the National Environment and Planning Agency;
- **Labor.** Rules applicable for labor in SEZs, provisions for foreign labor, work permits for foreign labor;
 - **Infractions and Enforcement.** Process for handling infractions by SEZ developers and zone users, penalties for infractions’
 - **Free Zone Grandfathering.** Provisions for grandfathering
- existing free zone users into the new SEZ regime, and phasing in new taxes over a period of time.
- **One-Stop Shop.** Coordination among ministries to house bureaucratic functions in a single location to streamline investor services, and implement the system in the most appropriate, demand-driven manner.

The Steering Committee should task each of the above working groups with outlining the specific details of how the SEZ regime will function in their respective areas. It is highly recommended that an SEZ expert help facilitate this process in order to suggest best practices, offer examples from other SEZ regimes, and provide other details and research as necessary.

Achieve Consensus on Structure and Details of SEZ Regime (June 2015)

In advance of actually drafting the SEZ Law and regulations, it is important that various stakeholders achieve consensus on the structure and details of the SEZ regime. In some areas, agreement may come easily. In others, the process might be more complicated. Some aspects of the SEZ regime, such as Customs, might require significant reforms to an agency and/or amendments to existing legislation and regulations. The legal drafting team should collaborate with the SEZ Working Groups to advise them on achieving consensus within the GoJ.

Determine How to Grandfather Existing Free Zone Users (June 2015)

Existing free zone users are seeking clarity about the taxes they will be subject to on January 1, 2016, as well as the status of their free zone leases. Out of respect for those businesses, it is crucial that the SEZ Steering Committee determine as soon as possible how the free zone users will be grandfathered into the new SEZ regime.

Seek Input from Business Community (June 2015)

It is important that the Steering Committee and the SEZ Working Groups seek input from the business community in a variety of industries—real estate development, manufacturing, logistics, ICT, BPO, tourism, etc. The Steering Committee need not accommodate all of industry’s demands, but it is important to use the business community as a sounding board to ensure that the SEZ regime is attractive and beneficial for a variety of industries.

Draft SEZ Law and Regulations (June – October 2015)

The SEZ Steering Committee shall task the legal drafting team with the actual drafting of the SEZ Law and associated regulations. Ideally, the legal drafting team should not commence the actual drafting until the SEZ Working Groups have sketched out some structure for the SEZ regime. It is not recommended that the attorneys proceed with legal drafting without consensus on the regime structure. The ultimate responsibility for the draft bill lies with the Office of Parliamentary Counsel. The attorney from that office, however, should work carefully with the international SEZ lawyer and others on the legal drafting team.

This is also a period when the legal drafting team should be sharing drafts of the SEZ bill and regulations with MIIC and other stakeholder ministries. It is also important to engage key parliamentarians to inform them of the intended structure and details of the SEZ regime, answer their questions and concerns, and seek buy-in at an early stage. The fewer surprises a ministry, Cabinet, or Parliament has, the smoother the process will go.

Approval and Passage of the SEZ Law and Regulations (October – December 2015)

During the process of Cabinet approval and parliamentary debate, the legal

The structure of the SEZ Authority and the efficiency of its operation are crucial to the success of an SEZ regime. A country typically has three options when it comes to creating a regulatory body for SEZs:

drafting team should remain engaged to make amendments and adjustments to the bill and regulations, as necessary.

Checklist for Drafting SEZ Law and Regulations

Table 4 – 1, on the following pages, provides a checklist of important aspects of an SEZ regime that must be considered in advance of and during the legal drafting process. The checklist consists of a series of questions that the SEZ Steering Committee and the SEZ Working Groups should answer. It is not an exhaustive list; rather, it contains subjects that are typically covered in SEZ laws and regulations. Also included in Table 4 – 1 are usual and best practices as they relate to each question. These are provided as a reference, and designed to guide—not limit—options for Jamaica.

4.3 Best Practices for Notable Features of New SEZ Regime

Section 4.2 provided a checklist that the SEZ Steering Committee and other stakeholders should utilize when designing the new SEZ regime. Though the SEZ regime must address all the listed subjects in the checklist, there are three areas of particular importance that warrant additional discussion—SEZ Authority and Customs.

Structure and Functions of SEZ Authority

1. Create an SEZ Authority to regulate a single zone. This is the case with Panama-Pacific SEZ, featured as Case Study 1 in Annex 1. Panama Pacific Special Economic Area Agency (APP) is the body that regulates, administers, and promotes the SEZ. This structure is sometimes found in very large multi-use SEZs, but it is not recommended for Jamaica.
2. Create an office or department within a ministry to regulate SEZs. This is the case of free zones in El Salvador and Foreign Trade Zones in the U.S., and is featured in Case Studies 7 and 8 in Annex 1. It is a workable option, particularly when the regulatory functions of the SEZ regime do not go beyond authorizing developers and zone users. One positive feature of this option is that it prevents the SEZ regulator from becoming a large bureaucracy that runs a parallel universe for doing business.
3. Create an SEZ Authority to regulate numerous zones. This is the case of the Philippine Economic Zone Authority, featured in Case Study 6 in Annex 1. This is also the option that Jamaica wishes to pursue, as directed by the SEZ Policy.

Jamaica's SEZ White Paper states the following with respect to the SEZ Authority:⁵²

- The Authority will be an executive agency under MIIC;
- The Authority will supervise all SEZs in Jamaica;
- The Authority cannot own, develop, operator, or occupy a business inside an SEZ;

⁵² "Special Economic Zones White Paper", Ministry of Industry, Investment, and Commerce, June 2015, pp. 18, 37, 38, and 42.

Table 4 – 1: Checklist for Drafting SEZ Law and Regulations

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
Governing Structure	General	1. How will the SEZ regime be governed/regulated?	1. Most SEZ regimes are governed by an SEZ Authority. Some are regulated through an office in a Ministry of Commerce (ie. US, El Salvador)
		2. What ministry or department will the governing structure be under?	2. Ministry of Commerce, Ministry of Industry, sometimes Office of the Prime Minister. Municipal governments in some countries, such as China and Mozambique, serve as the SEZ Authority with oversight in their particular town or state/province.
		3. How are local governments affected by an SEZ?	3. Usually, local governments retain all basic autonomy and identity, and are governed by their respective charters and laws. Exceptions include some SEZs in places like China or the Aqaba Special Economic Zone in Jordan. (These exceptions not recommended for Jamaica.)
		1. Will the SEZ Authority be governed by a Board? 2. Who shall lead/direct the Board?	1. A Board of Directors usually sits over an SEZ Authority. 2. A Chairperson or Director General, sometimes supported by deputy directors.
SEZ Authority ⁵³	Board	3. Will the Board director have any equivalent rank within the government?	3. Sometimes equivalent rank of Minister or deputy minister. Head of SEZ Authority should have the authority and influence to coordinate disparate agencies that are involved in the SEZ regime.
		4. Who shall serve on that Board?	4. Five to ten individuals chosen from public and private sectors, including ministers or deputy ministers of Commerce/Industry, Finance, Labor, Environment, Public Works, and Technology, and prominent individuals in business community.
		5. How will the Board members be appointed/approved?	5. Often appointed by the President.
		6. What are the qualifications for sitting on the Board?	6. Varies. Board director often must be of a certain age (at least 35 or 40), have a university degree in a specific field (economics, business, public administration, law, etc.), and have a minimum number of years working in a particular field (business, management, public administration)

⁵³ A good law to reference with respect to laying out the structure and responsibilities of the SEZ Authority and Board is the Special Economic Zone Act of the Philippines, which can be found here: <http://www.peza.gov.ph/index.php/about-peza/special-economic-zone-act>.

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
SEZ Authority		7. What are the Board’s responsibilities?	7. Set general policies on establishment and operation of SEZs; review proposals for establishment of new SEZs and make recommendations to President; approve annual budget of SEZ Authority; issue rules and regulations to implement SEZ law; prepare annual reports to President and Parliament; final authority to promote, transfer, or assign SEZ Authority personnel.
		8. What compensation do Board members receive for their service on the Board?	8. Transportation allowance and daily per diem, limited to a certain number of meetings per year (such as four).
		1. What are the powers and functions of the SEZ Authority?	1. Administer and regulate the SEZ regime; coordinate with local government on SEZ development plans; exercise supervision over SEZ developers; create, operate, and/or contract the functional units of the SEZ Authority to carry out its work; coordinate with relevant government agencies such as national planning agency, ministry of trade and industry, ministry of science and technology, etc. and local government for policy and program formulation and implementation; monitor and evaluate the development requirements of SEZ developers and recommend to government the basis services, infrastructure, and utilities required by developers; issue licenses and permits to SEZ developers and users. Coordinate the environmental and social compliance of SEZ users and developers/operators, together with environmental protection authorities.
		2. What are the responsibilities of the SEZ Authority Director?	2. Establish regional offices, if necessary; ensure revenues owed to authority are collected; ensure SEZ Authority employees are properly discharging their duties; make recommendations to the Board on matters such as issuance and termination of SEZ developer and user licenses; submit to the Board information about ongoing projects, annual budget, and SEZ Authority receipts and expenditures; represent the SEZ Authority in business matters and sign on its behalf after Board approval; act upon complaints and claims of SEZ users concerning administrative matters; prepare and make strategies for development of new SEZs.

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
New SEZs ⁵⁴	Personnel	3. Is the SEZ Authority allowed to own, lease, develop, or operate an individual SEZ, either in whole or through a joint venture? 4. What other rules is the SEZ Authority subjected to? 5. How is the SEZ Authority funded? 1. How is the personnel structure of SEZ Authority determined? 2. How are SEZ Authority personnel hired? 3. How are SEZ Authority personnel compensated?	3. Varies. Current trend and best practice is for SEZ Authority to not engage in zone development or operation, or otherwise put itself in financial risk associated with development. 4. SEZ Authority cannot disburse any funds except in pursuance of budget. 5. Appropriations from national government, proceeds from licenses, permits, fees, and other revenue-generating instruments. 1. Board provides for staffing structure of SEZ Authority. SEZ Authority Director approves, and Board has exclusive final say in position classification, qualification standards, and personnel remuneration. 2. Personnel hired by Authority, with approval of Director. 3. Some SEZ Authorities use civil service personnel rules. Best practice, however, is for compensation to be comparable to that in private sector, and subject to periodic review by Board. Thus, SEZ Authority should be exempt from laws and regulations governing civil service position classifications and compensation. 4. Personnel should not engage in partisan political activities, except to vote; Director and staff cannot hold any other office or employment while working for SEZ Authority; staff cannot have financial interest in any SEZ development or business located within and SEZ; all Board members and SEZ Authority staff must disclose financial and business interests. 5. SEZ Authority should be about to bring in outside expertise in specific technical areas on an ad hoc basis to be able to review master plans and feasibility studies when new development applications have been submitted.
		Development Strategy	1. Who sets the national development strategy for new SEZs?

⁵⁴ A good law to reference with respect to establishing new SEZs is the Special Economic Zone Act of the Philippines, which can be found here: <http://www.peza.gov.ph/index.php/about-peza/special-economic-zone-act>. The Philippines SEZ regime is featured as Case Study 5 in Annex 1.

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
	Proclaiming a new SEZ	<p>2. What is the policy of the government with regard to private development of SEZs?</p> <p>1. Who proclaims a new SEZ?</p> <p>2. What is the process for proclaiming a new SEZ?</p> <p>3. What government bodies are responsible for weighing in on the decision?</p>	<p>2. Increasing trend toward private participation in SEZs, PPPs, etc, and limiting government's financial risk and exposure in new SEZ developments.</p> <p>1. Country's president or prime minister often proclaims new SEZs.</p> <p>2-3. SEZ Authority usually recommends new SEZs to the President, in coordination with other specified bodies such as local governments and national land planning agency. SEZ Authority must submit new SEZ plans to regional and national land planning agencies. Environmental Protection Agency, or equivalent, must review and approve all environmental impact assessments and mitigation plans.</p>
	New SEZ locations	<p>1. What characteristics should a new SEZ location possess?</p>	<p>1. Part of an existing regional development plan, presence of suitable off-site infrastructure such as roads, power, water, effluent treatment, and telecommunications, land available for zone expansion and residences for workers (if desirable), available labor force nearby, zone location offers an incremental advantage over other SEZs, potential SEZ profitability can be established, and strategic location.</p>
	Developers of new SEZs	<p>2. Are there size restrictions for SEZs?</p> <p>1. Who can establish new SEZs?</p> <p>2. What information are developers of SEZs required to submit?⁵⁵</p>	<p>2. Some SEZ regimes impose minimum sizes on SEZs, but this is not necessarily a good practice. Depends on national goals.</p> <p>1. Public or private entities. Best practice is evolving toward use of private developers and/or PPPs.</p> <p>2. Feasibility study, including demand forecast and master plan; engineering study; information on the following: zone location qualifications land area, how security will be maintained in SEZ, facilities developer intends to provide, estimated cost of development, time expected to commence and complete construction, methods of financing SEZ development and operations, potential profitability of zone, zone employment projections, target industries likely to locate in SEZ.</p>

⁵⁵ Colombia's Free Trade Zone regime offers good guidance on what is required of zone operators to obtain free trade zone status. Their manual is available here: http://www.investincolombia.com.co/Adjuntos/091_Free%20Trade%20Zone%20Manual%202010.pdf

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
SEZ Operation	Government responsibilities	3. How much time does a developer have to commence construction of a new SEZ or SEZ expansion, and open for business? 4. What infrastructure and facilities must SEZ developers provide inside an SEZ?	3. After granting of an SEZ developer license, construction must often commence within 12 to 18 months, and SEZ must open within a period of three to five years. 4. Internal roads, water, power, sewer, and telecommunications connections, administration building, offices and facilities for SEZ Authority representatives and Customs representatives. Where off-site water, power, and sewer connections are not possible, developer should construct and provide those utilities on-site for SEZ users. Governments sometimes agree to provide certain elements of on-site infrastructure, especially when negotiating with a developer that is especially desirable to have in the country.
	Eminent domain	1. What are government's responsibilities to new SEZ developers? 1. What is the policy regarding eminent domain for the development and expansion of SEZs? 2. What are compensation procedures?	1. Often the transportation infrastructure, off-site water, power, telecommunication, and sewerage connections. 1. Government has the power to acquire private lands in order to consolidate lands for zone development, acquire right of way to access zone, and protect natural resources around the zone. 2. Subject to national law regarding eminent domain and compensation.
	Land conversion	1. Are lands that are zoned for non-industrial purposes allowed to be converted for such, and what is the process for doing so? 1. Are single-factory SEZs allowed?	1. Yes, agricultural lands may be converted subject to normal laws and regulations in force for doing such. 1. Varies from country to country, depending on local realities and goals of SEZ regime.
	Stand-alone SEZs	2. What are the criteria for establishing a stand-alone / single-factory SEZ?	2. Similar rules governing who can locate in an SEZ. Enterprise must demonstrate its ability to secure imported products and comply with Customs rules and procedures.
	Management / Operation Structure	1. Is there a specified manner in which [public] SEZs must be operated/managed?	1. Some SEZ regimes with a mix of public and private zones have specifications on the management structure of public zones. This usually does not pertain to how private zones are operated.
	Lease/Sale of Land	1. Can land in an SEZ be sold to zone users?	1. Varies. Depends on national land ownership laws and preferences of zone users in different markets around the world. Some private developers like the option to sell SEZ land to zone users because it is a way of raising up-front capital for zone development. Potential

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
Zone Users	Business registration and licensing	<ul style="list-style-type: none"> 2. What is the maximum land lease period? 3. Can leasehold rights acquired under long-term contract be sold or transferred? 	<p>disadvantage to selling land: if SEZ user is out of compliance with environmental, social, or other issues, SEZ authority and operator have less recourse since the company owns their property.</p> <ul style="list-style-type: none"> 2. Varies. In range of 25 to 99 years, often with renewal clauses. 3. Yes
		<ul style="list-style-type: none"> 1. Can a new enterprise directly incorporate itself in an SEZ? 	<ul style="list-style-type: none"> 1. Sometimes, but usually not. Some SEZs allow for a company to be legally incorporated only in the SEZ. Most SEZ regimes require that the company be incorporated inside the host country or in a foreign country.
		<ul style="list-style-type: none"> 2. Who may set up enterprises in an SEZ? 	<ul style="list-style-type: none"> 2. Foreign and local natural persons and companies or joint ventures with any proportion of foreign and domestic ownership.
		<ul style="list-style-type: none"> 3. Where do new zone users register an SEZ enterprise? 	<ul style="list-style-type: none"> 3. Submit an application and fees to SEZ Authority (or to appropriate ministry department that administers SEZ program in cases where there is no SEZ Authority).
		<ul style="list-style-type: none"> 4. What is required in the SEZ registration and licensing application? 	<ul style="list-style-type: none"> 4. Articles of incorporation, list of company shareholders, intended activity in SEZ, products, intended domestic and foreign inputs, production capacity, etc.
Taxes and Incentives	Commencing operations	<ul style="list-style-type: none"> 5. What are business registration and licensing fees? 1. After being granted a license to operate in an SEZ, how long does an enterprise have to commence operations in the zone? 	<ul style="list-style-type: none"> 5. Best practice is for SEZ Authority to operate on a cost-recovery scheme. This results in relatively high fees. It is possible to have a sliding scale of fees to better accommodate SMEs. 1. Varies, but typically 18 to 36 months, for companies that construct their own facilities inside the zone.
		Closing an SEZ enterprise	<ul style="list-style-type: none"> 1. What are the procedures for closing a company located in an SEZ?
Taxes and fiscal incentives	<ul style="list-style-type: none"> 1. What taxes must be paid by zone users and developers? 		<ul style="list-style-type: none"> 1. Varies. Typically there is a reduction of corporate income tax, VAT, real property tax, local taxes, taxes on dividends, etc. Increasingly, best practice is to levy a low flat corporate income tax with easy filing procedures.
	<ul style="list-style-type: none"> 2. What taxes must be paid by persons working in an SEZ? 	<ul style="list-style-type: none"> 2. Workers employed by SEZ users must usually pay personal income taxes. 	

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
One-Stop Investor Services	Non-fiscal incentives	3. Is there a differentiation in the SEZ with regard to who receives fiscal incentives and who does not?	3. SEZ Authority should grant same benefits to SEZ developers as to SEZ users. Some SEZ regimes differentiate between “productive” and “non-productive” enterprises to determine who is offered fiscal incentives. A manufacturer or BPO, for instance, would be a “productive” enterprise that would receive incentives. A bank branch, daycare center, etc. would be a “non-productive” enterprise that does not receive the same level of incentives.
	Repatriation	1. What non-fiscal incentives will be available to SEZ users and developers?	1. Some SEZ regimes provide incentives for worker training, such as deductions from corporate income tax on the value of training expenses incurred by SEZ users.
	Repatriation	1. Can profits be repatriated outside country?	1. Normally, yes. After-tax profits and earnings of foreign investments can be repatriated in equivalent foreign currency pursuant to specific rules governing such (ie. use of particular banks, etc.)
One-Stop Investor Services	Repatriation	1. Who operates One-Stop investor services?	1. Varies. Chamber of Commerce (Colombia), SEZ Authority (Aqaba SEZ). In some countries (e.g. El Salvador), the one-stop investor service center is national and available to all enterprises, not just those in SEZs. This is a good practice for small countries, and a better way to reform the business environment.
		2. How is the One-Stop Shop organized?	2. Various. 1) Virtual, with an e-government interface to all relevant regulatory agencies; 2) All appropriate government agencies involved in the registration, licensing, and permitting process assign representatives to the One-Stop Shop. Representatives have authority to make decisions on behalf of their ministries and agencies; 3) Representatives from SEZ Authority or operator facilitate applications through bureaucratic system on behalf of SEZ users.
Labor	Foreign labor	1. Is foreign labor allowed in SEZs? If yes, what kind and how much?	1. Foreign labor sometimes allowed. In some countries, Ministry of Labor must certify that skills cannot be found in the country. Sometimes foreign labor is limited to a certain percentage of the workforce (ie. 5% in Philippines SEZs). Optimal percentage needs to be examined in context of Jamaica. 2. Sometimes permanent residency granted to investor and family (minor children) for investments exceeding a certain size.

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
Customs ⁵⁶	Labor rules	<ol style="list-style-type: none"> 2. Can any investors receive Jamaican permanent residency based on their investment in and SEZ? What are the criteria? 3. What is the process and responsibilities for issuing foreign labor permits? 4. What are the roles of the Ministry of Labour and Social Security and the Passport, Immigration and Citizenship Agency (PICA) in the process? 1. What labor rules apply in SEZs? 2. Are workers in SEZs allowed to join and form unions and collectively bargain? 3. What additional efforts will be made to ensure industrial peace in SEZs? 	<ol style="list-style-type: none"> 3. SEZ Authority usually issues labor permits/visas. 4. MOUs often signed with Ministry of Labor and Immigration Agency. 1. The national labor code applies. 2. Varies. Best practice is to allow unions and collective bargaining. 3. Sometimes a body composed of Ministry of Labor, industry management, and workers is formed for the purpose of maintaining industrial peace in SEZs. SEZs can be instrumental in creating a positive labor atmosphere. In some countries, labor situation is better inside zones than outside (e.g. Bangladesh).
	Extra-territoriality	<ol style="list-style-type: none"> 1. Is the SEZ considered inside or outside the Customs Territory? 1. What are zone users allowed to do with raw materials and goods brought into an SEZ? 	<ol style="list-style-type: none"> 1. Normally considered outside the Customs Territory. 1. Goods may be stored, sold, exhibited, broken up, repacked, assembled, distributed, graded, cleaned, manipulated, manufactured, and mixed with other domestic or foreign merchandise. In short, best practice is for no limitations provided it is legal to possess or import the good under the laws of the country. There should be no time limits for storage of goods.
	Goods in SEZs	<ol style="list-style-type: none"> 2. Can zone users import capital equipment (machinery) into the zone duty-free? 	<ol style="list-style-type: none"> 2. Yes, in most SEZ regimes.

⁵⁶ The U.S. Foreign Trade Zone (USFTZ) regime is a good model for how Customs operates in SEZs. The USFTZ regime is featured as Case Study 8 in Annex 1. The USFTZ Act can be found here: <http://enforcement.trade.gov/ftzpage/19uscftz/ch1a.html> and U.S. Customs and Border Patrol FTZ Manual can be found here: <http://www.cbp.gov/sites/default/files/documents/FTZmanual2011.pdf>

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
	Role of Customs in SEZs	<ol style="list-style-type: none"> 1. Where are Customs located? 2. What are the duties of Customs inside an SEZ? 	<ol style="list-style-type: none"> 1. Customs has an office at the entrance/exit of each SEZ. Stand-alone SEZs must grant access to Customs for unannounced inspections. 2. Customs may be consulted on new zone user applications. Merchandise in SEZ is under control of Customs. Customs monitors goods coming in and out of zone. Merchandise in zone is subject to spot checks by Customs at any time. Customs collects duties on the value of imported materials when good are sold into the domestic customs territory. Customs supervises the inventory control method used to account for raw materials, and separation of those materials/feedstock into a new material or product inside the SEZ. Customs determines and approves what can be considered irrecoverable waste of imported materials used in the manufacturing process. Customs monitors equipment brought into the SEZ for the purposes of manufacturing.
	Domestic sales	<ol style="list-style-type: none"> 1. Can goods produced in an SEZ be sold in domestic customs territory? 2. What duties must be paid for goods to be sold domestically? 	<ol style="list-style-type: none"> 1. Increasingly, yes, 100 percent of goods produced in SEZ can be sold domestically. This is required by WTO if paired with tax incentives or other financial benefit to zone user. 2. Customs duties must be paid on the value of the imported inputs used to create the final product, <i>not</i> the value of the entire product.
	Free trade areas	<ol style="list-style-type: none"> 1. How will CARICOM countries handle good produced in a Jamaican SEZ? 	<ol style="list-style-type: none"> 1. Some zones (ie. USFTZs) get around this issue by requiring payment of duty on value of imported inputs when the good is sold to another country within the free trade area.
	Allowable activities	<ol style="list-style-type: none"> 1. What goods and services can be produced/undertaken in SEZs? 2. Can SEZs include tourism developments? 	<ol style="list-style-type: none"> 1. A negative list usually specifies activities not allowed—normally dangerous activities or those that harm national security such as weapons, fireworks, coinage, etc. 2. Varies. Some SEZ regimes allow for tourism zones; others do not. Depends on national priorities.
Good and Services		<ol style="list-style-type: none"> 3. Are retail sales and duty-free shopping allowed in SEZs? 4. Is residential housing allowed in SEZs? 	<ol style="list-style-type: none"> 3. Sometimes, but usually not. Depends on national priorities for SEZ regime. 4. Varies. Some SEZ regimes allow on-site dormitories or residential neighborhoods outside the industrial processing. Depends on zone security and whether good urban planning is in force in area around zone in order to provide enough residential housing for workers.

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
		5. Will any activities be allowed in SEZs that are <i>not</i> allowed in the rest of the country?	5. Sometimes, though this is not necessarily a best practice. Some SEZ regimes allow for activities such as gambling in a zone, which would otherwise be forbidden in the rest of the country.
	Banking and Finance	1. Do the country's banking and finance laws apply in SEZs?	1. Normally, yes. They may differ, however, if the SEZ regime is targeting offshore financial services.
	Certificate of Origin	1. Who will issue the certificate of origin for products manufactured in SEZs? 1. What role does the SEZ Authority play in protecting the natural environment?	1. Local Chamber of Commerce often issues Certificate of Origin. In some countries, responsibility falls on SEZ Authority. 1. SEZ Authority can revoke license of zone user for environmental infractions. Works with environmental protection agency to monitor environment of SEZ.
Environment	Protection of natural environment	2. What role does NEPA play in SEZs? 3. Who is ultimately responsible for environmental compliance in SEZs?	2. Environmental authority has jurisdiction over environmental matters in zone. Works together with SEZ Authority and zone developer/operator to monitor environmental practices in an SEZ. 3. Needs to be specified at the outset whether the SEZ developer/operator or SEZ user is ultimately responsible for environmental compliance. All lease agreements are commercial contracts between SEZ developer/operator and SEZ user (company), but leases should contain obligatory standard clauses on environmental and social compliance.
Defense and Security	Perimeter security	1. Who is responsible for the security and defense of the external zone perimeter?	1. National government and/or municipal police.
	Dissolution	1. How will Jamaica's free zone regime be dissolved?	1. The new SEZ law will dissolve the old regime.
	Grandfathering	1. How will zone users under free zone regime be grandfathered into SEZ regime?	1. Fiscal incentives from old SEZ regime are gradually phased out.
Old Free Zone Regime	Transfer of assets	1. What will happen to government assets invested in existing free zones during the change to new SEZ regime?	1. Sometimes such government assets transfer to the SEZ Authority, particularly if the assets were previously held by a Free Zone Authority.
	Transfer of appropriations	1. How are government appropriations to old free zone regime handled?	1. All such appropriations are transferred to new SEZ Authority.
	Applicability to SEZs	1. What is the applicability of national laws to SEZs?	1. All national laws apply to SEZs, except in cases where law specifies otherwise.
National laws	Repealing clause	1. What happens if the SEZ law is inconsistent with other laws in force in Jamaica?	1. In some countries, there is a "repealing clause" in the SEZ law that declares that the SEZ Law supersedes, modifies, or amends all other

Subject	Focus	Details to Consider and Specify in SEZ Law and/or Regulations	Usual/Best Practices in SEZ Regimes
Transgressions	Investigations	1. How are complaints handled?	<p>laws that might be inconsistent with it. Not all legal systems allow for this, however.</p> <p>1. The SEZ Authority has power to investigate credible complaints concerning the conduct of SEZ Authority personnel, developers, or zone users. The Authority may conduct an investigation, collect evidence, subpoena witnesses, etc.</p>
Rules and regulations	Regulations	1. What additional regulations are required?	<p>1. Regulations are often drafted for the following as they pertain to operations and procedures in SEZs: business registration and licensing, labor, environment, customs</p>

- The Authority must be self-reliant with its own budgeted revenue streams sufficient to meet expenses;
- The Authority shall ensure regular environmental audits to ensure compliance within SEZs;
- The Authority will make a plan to house various regulatory agencies under one roof to facilitate a one-stop investor services center.

The first four points are considered best practices in SEZ regimes. With respect to environmental audits in the fifth point, the SEZ Authority would normally closely coordinate with the National Environmental Protection Agency to ensure that audits are conducted within SEZs. In cases like this, where there is the need for close coordination or the potential for an overlap of regulatory responsibilities, it is crucial that the Working Group described in Section 4.2 come to consensus on these issues in advance of drafting the SEZ Law and regulations. The last point, regarding

one-stop investor services is discussed in the next section.

Jamaica's SEZ White Paper is silent on most other matters pertaining to development of an SEZ Authority, and that is where the SEZ Steering Committee must immediately start designing and planning the institution. Table 5 – 1 in Chapter 5 suggests a timeline for creation of the SEZ Authority. Some best practices to consider, which are not mentioned in the SEZ White Paper, are discussed below.

SEZ Board. The SEZ White Paper makes no

mention of an SEZ Authority Board. It is recommended that a Board of Directors be the highest governing body of the Jamaica SEZ Authority. The functions of an SEZ Board are typically as follows:

- Set the general policies on the establishment and operations of SEZs;
- Hire the SEZ Authority Director General and other officers of the Authority;
- Review proposals for the establishment of SEZs based on criteria set by Law and regulations;
- Approve the annual budget of the SEZ Authority;
- Issue rules and regulations to implement the provisions of the SEZ Law;
- Provide annual reports to the President and Parliament.

The Board should be made up of a Chairperson and approximately six to eight members from the public and private sectors. SEZ Board members are typically appointed by the overseeing ministry, such as MIIC, and serve terms lasting about five years. Board members must normally be citizens in good standing with the law, hold a university degree, and possess certain skills pertinent to serving on the Board. It is best practice that the Chairperson of the Board not be employed by the SEZ Authority in order to avoid conflicts of interest, since the Board oversees operations of the SEZ Authority.

It is recommended that the SEZ Steering Committee search for Board members during July and August 2015, as shown in the timeline in Table 5 – 1. The selection of the SEZ Authority Board should avoid political compromises, and focus on the professionalism of its members and their capacity to support the SEZ regime and promote Jamaican zones.

Functions of the SEZ Authority. The SEZ White Paper is largely silent on the specific functions of the SEZ Authority. Some typical best practice functions include:

- Administer and regulate the SEZ regime;
- Issue SEZ licenses to SEZ developers and zone users;
- Evaluate the development requirements of SEZ developers and recommend to government the basis services, infrastructure, and utilities required by developers;
- Exercise supervision over SEZ developers and zone users;
- Coordinate with relevant government agencies such as national planning agency, MIIC, NEPA, Ministry of Science, Technology, Energy, and Mining, etc. and local government for policy and program formulation and implementation;
- Provide information and make recommendations to the SEZ Authority Board, as needed;

The functions of the SEZ Authority should be clearly spelled out in the SEZ Law. Thus, consensus should be reached about these in advance of the legal drafting exercise.

Forms, Documents, and Standard Operating Procedures. Forms and procedures are required for every application, license, and other transaction the SEZ Authority will regularly undertake. Some of these transactions will also involve fees, which are necessary for the stated goal of financial autonomy for the SEZ Authority. By the time the Authority becomes operational in 2016, all of the forms and documents should be designed, fees should be set, and standard operating procedures (SOPs) should be established. The suggested timeline, shown in Table 5 – 1 is October to December 2015, coinciding with the time Parliament is debating the SEZ bill. Once the Authority is operational, electronic procedures can be established for the processing of all SEZ Authority processes. It is also recommended that,

1. The SEZ Authority or zone operator is vested to issue permits *itself*;

once established, the SEZ Authority apply for ISO 9001 certification. ISO 9001 sets out the criteria for a quality management according to principles such as customer focus, leadership, continual improvement, and managing interrelated processes as a system. Creating SOPs in this manner ensures that SEZ developers and zone users get consistent, good quality services from the SEZ Authority.

“One-Stop Shop” Investor Services

Many countries and SEZ regimes utilize “one-stop shops”, whereby the bureaucratic functions of government and investor interface are streamlined to create more efficient and faster investor services. Figure 4 – 1 describes four options for one-stop investor services often found in economic zones:

2. Staff from various ministries are seconded to a one-stop shop within an SEZ or at a centralized location;
3. SEZ Authority or zone operator facilitates applications on behalf of zone users;
4. No investor services available to SEZ users.

Jamaica’s current free zone regime operates under option 4, “No investor services available in SEZ”. The SEZ White Paper, however, states that under the new SEZ regime, the SEZ Authority will operate a one-stop investor services facility. Specifically:

“The Authority will coordinate with the relevant approval and trade facilitation agencies which will all be housed in a one-stop facility to allow for easy coordination and efficiency in the services they provide to developers and entities within the zone.”⁵⁷



Figure 4 – 1. Types of One-Stop Shops in SEZs

Under the proposed model, representatives from various ministries would be physically located in a center operated by Jamaica’s SEZ Authority,⁵⁸ in line with option 2 described on the previous page. However, there are several reasons why this might not be the optimal one-stop investor services solution.

- The SEZ Authority’s one-stop shop might not have enough activity for officials to be fully occupied at the center;

⁵⁷ “Special Economic Zones White Paper”, Ministry of Industry, Investment, and Commerce, June 2015, p. 38.

⁵⁸ Operations at the One-Stop Shop are expected to commence in March 2016, as per the White Paper, p. 22.

- Jamaica is a relatively small country, and risks developing first-class and second-class processes for investor services;
- Limiting the one-stop shop to SEZ users does not help facilitate linkages between SEZs and companies inside the customs territory, a stated goal of the government of Jamaica;
- A one-stop shop is a challenging undertaking, and the SEZ Authority will expend limited budget and resources to house regulatory staff.

Better options for a one-stop shop might include:

- **“Virtual One-Stop Shop”**, whereby all regulatory authorities are connected through an e-government portal accessible to businesses. This is less costly in the long-run than relocating government representatives to a single office, where their time might not be fully utilized;
- **National One-Stop Shop**. Rather than limit one-stop investor services to SEZ users, Jamaica should consider adopting a national one-stop services model similar to that in El Salvador. (See Box 4 – 1.) This would extend the same class of service to companies operating inside and outside of zones. As an initial pilot project, the center could be available only to SEZ users, and open to other companies after the pilot period. In this case, however, the national one-stop shop would be operated by an entity other than the SEZ Authority.

Box 4 – 1: El Salvador’s National One-Stop Shop

El Salvador, there is no one-stop shop specifically for free zone users. Rather, the Ministry of Commerce contains a general one-stop shop for issuance of licenses to *all* enterprises, not just zone users. The one-stop office contains officials from immigration, customs, business registry, and Ministry of Labor. Private zone operators have the authority to send a letter to the Ministry of Commerce to notify them of the issuance of a license. This works well for routine licensing cases, but the Ministry is involved for less orthodox company registrations. El Salvador’s free zone regime is featured in Case Study 7 in Annex 1 of this report.

• **Vest Authority with SEZ Operators.** SEZ developer/operators can play a role in one of two ways: 1) They can do the footwork on behalf of the SEZ user, facilitating the investor’s application through the system; or 2) The government can vest SEZ operators with the ability to issue some licenses on behalf of the government.

• **A Combination of Any of the Above.** The national one-stop shop, for instance, could be a virtual one-stop shop, and an individual SEZ operator

could choose to submit paperwork as a service to investors in the zone.

Customs Operations Vis-à-vis SEZs

Customs is arguably the most important feature of the SEZ regime with respect to attracting and retaining transshipment and logistics businesses in Jamaican zones. However, the current Customs practices of Jamaica do not allow it to play in the same global logistics league as Rotterdam, Dubai, Singapore. Of particular concern are activities that involve cargo de-vanning and re-vanning, goods distribution, long-term storage, and treatment of duties on goods imported to the customs territory from free zones. Based on interviews with firms, Box 4 – 2 highlights problems companies have recently

Box 4 – 2: Jamaica Customs Case Studies

1. Container Re-vanning. A company wanted to import tires into a Jamaican free zone, and repack them into different containers for export to various countries in the region. Because the tires were repacked, the company had to pay import duties, even though the merchandise was ultimately exported. The Customs Law does not allow for re-vanning of merchandise outside a port. The company worked out a temporarily solution with Customs, whereby they could bring the tires to Kingston Wharves warehouse, pay a substantial fee to Customs (in addition to fees charged by Kingston Wharves), and transship the tires from there. This one-off solution is expensive for the company, and is a disincentive for any other company that wants to use Jamaica as a transshipment hub to repack goods for re-export.

2. Distribution of Goods. A pharmaceutical company wished to establish a regional distribution center in a Jamaican free zone. It would import all the pharmaceuticals, and distribute some within Jamaica and some to the surrounding region. Customs preferred the company locate outside the zone in order to collect duties on the merchandise. A one-off solution was proposed by Jamaica Customs, whereby the company is required to submit an inventory forecast every six months. However, because pharmaceuticals are distributed on a demand-driven basis, this system is not conducive to the company’s business model, and is a deterrent to anyone else that wants to utilize Jamaica as a distribution platform.

3. Long-Term Storage of Goods. An automobile that was stored in a free zone for more than six months was confiscated by Customs. This situation was actually subject to the Export Free Zone Act, Article 31(1), which states: “Where it appears to a Promoter that any Goods of property have been abandoned in a Free Zone for a period exceeding six months, the Promoter with the approval of the Council may dispose of such goods or property whether by destruction, sale, or otherwise and in the case of disposal by sale, shall apply the proceeds of such sale against any fees or other expenses incurred by the Promoter or the Council in connection with those goods or property or such disposal.” By contrast, the US Foreign Trade Zones (featured in Case Study 8 in Annex 1 and Colombian free zones allow storage inside zones for an indefinite period of time, without the imposition of Customs duties or confiscation.

experienced with Jamaican Customs.

The SEZ White Paper provides little guidance on how Jamaica Customs should specifically operate in the context of SEZs, but it does offer the following:⁵⁹

- There should be minimal Customs procedures in SEZs;
- ASYCUDA, Port Community System, and Single Electronic Window will be incorporated into Customs procedures in zones to ensure integrated streamlined business processes;
- The Customs Act should be amended, aiming to guarantee the legality of paperless, simplified procedures to facilitate trade;
- Customs agents shall receive customer service training;

⁵⁹ “Special Economic Zones White Paper”, Ministry of Industry, Investment, and Commerce, June 2015, pp. 13, 19, 23, and 24.

- Jamaica must coordinate with regional trading partners such as CARICOM on treatment of goods originating in SEZs with respect to Customs duties;
- Customs can more easily monitor goods brought into SEZs from the customs territory because the SEZ Authority will “register and monitor” those domestic firms;

All but the last point are recommended as best practices for Customs. The last point recommended by the SEZ Policy, however, will likely impose more bureaucratic tape and market distortions than do any good. This is discussed in detail in Section 4.1 on pages 4 – 2 to 4 – 3.

The role of Customs needs to be greater than simply a narrowly focused “watchdog”. Countries employing best practices view Customs as an important partner for attracting and retaining investment and creating jobs. With regard to Customs reforms, several things stand out as necessary to create a world-class SEZ regime and turn Jamaica into a logistics and transshipment hub. The following stand out as requiring immediate attention in advance of and during the SEZ legal drafting process.

Special Training for Customs. The government of Jamaica should ensure that Customs officials located in SEZs receive special training to understand the purpose of SEZs and duty-free status. The Dominican Republic is one such country that provides this specialized training for their Customs officials. Colombia has even contracted a private sector entity to operate the Customs functions in its SEZs, and has had great success at doing so.

Transshipment Cargo in SEZs. SEZs are at the heart of Jamaica’s GLHI strategy. They can be located inside a port, adjacent to a port, and any measure of distance away from a port. Laws,

Treatment of Imported Merchandise. Jamaican Customs treatment of imported merchandise must change if the SEZ regime is to play an important role in the GLHI. Customs should not impede any of the following four scenarios.

regulations, rules, and procedures should be put in place to help facilitate transshipment of goods into and out of SEZs. Currently, however, re-vanning of cargo is not allowed inside free zones, and that status quo is going to stymie Jamaica’s goal to be a global logistics and transshipment leader. In order for Jamaica’s logistics hub to thrive, Customs must allow transshipment cargo in SEZs to be exported in different containers than the one in which it was originally imported. This covers the following scenarios:

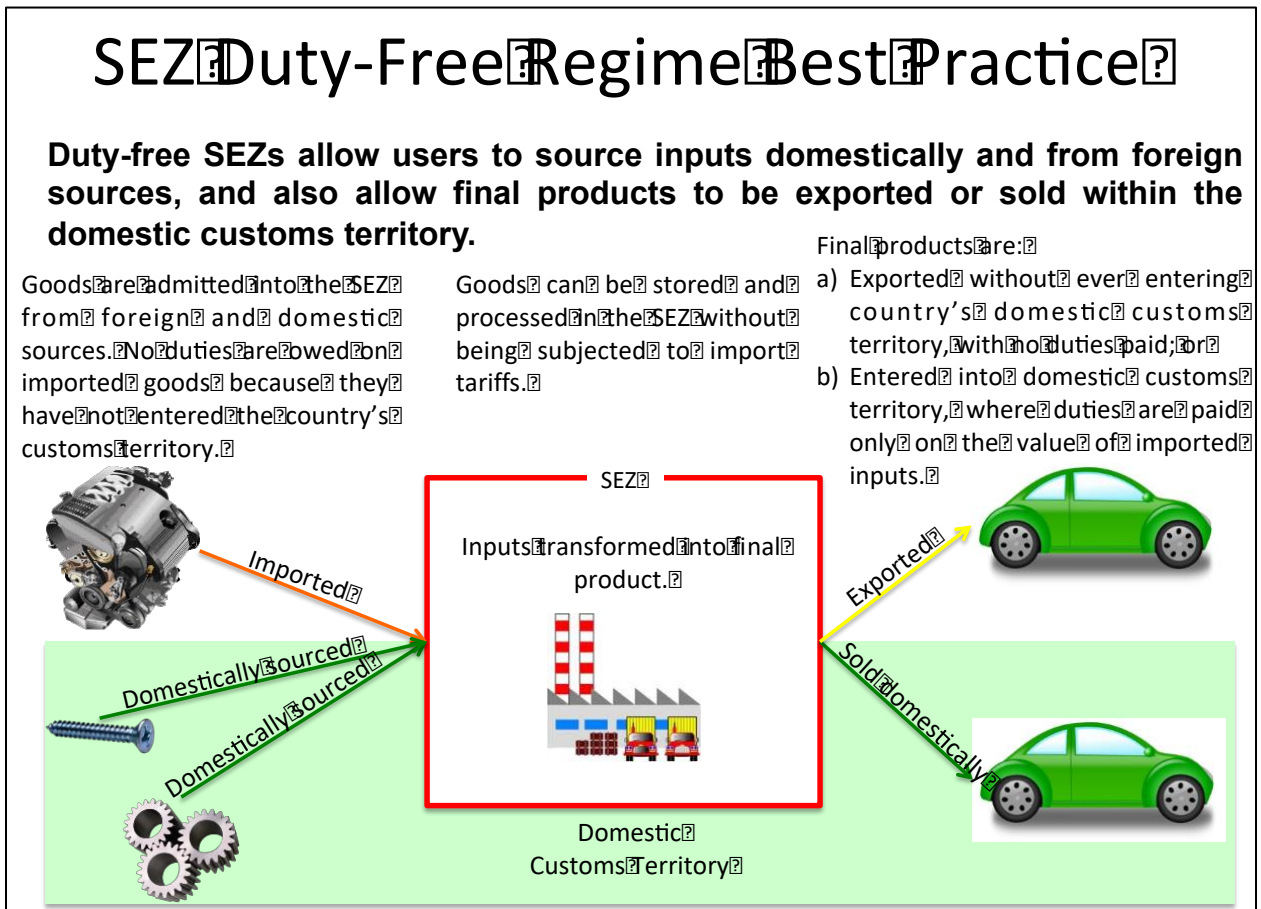
- Cargo arrives in a Jamaican SEZ as a series of separate consignments, and is consolidated into a single consignment for export;
- Cargo arrives in a Jamaican SEZ as a single consignment, and is repacked into multiple consignments for export;
- Cargo arrives in a Jamaican SEZ, and is transshipped by a different mode of transport—ie. cargo arrives by air, and is exported by sea.

Changes in the Customs regime are necessary to effectuate the above scenarios. Short of this, however, Jamaican SEZs will not be attractive for many companies engaged in cargo transshipment.

- Cargo arrives in a Jamaican SEZ, is stored, and is distributed (domestic or export) on an as-demanded basis;
- Cargo arrives in a Jamaican SEZ, and is stored for over a year;
- Cargo arrives in Jamaican SEZ, is transformed and/or combined with local goods, and then exported;
- Cargo arrives in Jamaican SEZ, is transformed and/or combined with local goods, and then sold domestically.

When the goods are admitted into a Jamaican SEZ from a foreign source, no duties should be paid on the merchandise because they have not entered Jamaica’s customs territory. In cases where imported merchandise, including that imported in mail shipments, is transported to and from zones through the Customs territory, provisions can be made for it to be transported in-bond. Figure 4 – 2, below, summarizes the best practices of an SEZ duty-free regime.

Figure 4 – 2:



Foreign trade zones in the United States provide a useful example of how Customs should operate in the context of a duty-free SEZ regime. (See Case Study 8 in Annex 1 of this report.) The USFTZ program allows imported and domestically sourced goods to be stored, displayed, assembled, or transformed inside an FTZ. The resulting project can either be exported or sold domestically. One of the hallmarks of the program is that tariff

duties are only paid on the value of imported inputs in the products sold to the domestic market.⁶⁰ The value of domestically sourced inputs and labor value added are not subject to import duties.

Several different practices are in place throughout the Caribbean with regard to levying duties on goods sold into a country's domestic customs territory. The Dominican Republic, like Jamaica, currently levies duties on the entire value of a good when it is sold domestically. However, the Dominican Republic is in the process of drafting a new free zone law. Once the new law is implemented in 2015, their zone regime will operate much like the USFTZ program with respect to only levying duties on the imported value of a good.

Costa Rica levies duties only on the value of imported components of a product.

Unlike the USFTZ program—where the “importer of record” pays the tariff⁶¹—Costa Rican free zone legislation indicates that sales from a Free Zone Company to a Local Company are considered “exports”, and Local Company purchases are considered “imports”. That means the local “importer” is the one who is liable for paying the import tariffs. However, the Costa Rican Customs Department wants the free zones users to be the ones liable for the taxes. Changes in these procedures are currently under discussion, and the Costa Rica Free Zones Association is preparing their position papers, and a resolution is expected in the next several months.

4.4 Recommendations Based on Analysis of Jamaica's Proposed SEZ Regime

Revisit Policies in SEZ White Paper (July 2015)

The GoJ should address ways in which the SEZ White Paper runs contrary to best practices in SEZ regime design. Most notably:

- **Registration and monitoring of goods and service providers located outside SEZs.** This introduces market distortions, and does not contribute to the success of the SEZ regime. Rather, it adds to the bureaucratic complexity associated with conducting business inside zones.
- **Treatment of goods sold in domestic Customs territory.** The policy of levying tariffs on the entire value of a good produced in a zone is not conducive to manufacturing, logistics, and transshipment providers using SEZs as part of the Logistics Hub. Furthermore, it creates a disincentive to source inputs from the Jamaican market

⁶⁰ In cases where the imported input might be subject to a higher tariff value than the final product (inverted tariff), the manufacturer can choose to have the lower of the two tariffs applied. Such tariff, however, is only applied to the value of the imported content of the final good.

⁶¹ In the USFTZ program, the “importer of record” could either be the manufacturer located inside the FTZ, or it could be a final purchaser located outside the FTZ. It varies depending on the circumstances of the particular company and merchandise.

because they will be taxed as part of the value of final good sold into the Customs Territory.

- **Grandfathering free zone users.** The manner in which existing free zone users will be grandfathered into the new SEZ regime should be immediately clarified.

Draft SEZ Law and Regulations (July – October 2015)

Design of the new SEZ regime is the responsibility of the SEZ Steering Committee, which should convene Working Groups immediately in the areas suggested in this chapter. Design of the zone regime should proceed in advance of the actual legal drafting, covering topics in the checklist provided in Table 4 – 1.

Create SEZ Authority Structure (July – August 2015)

The SEZ Steering Committee needs to establish a structure for the SEZ Authority, including organizational structure, job descriptions, performance standards, and hiring guidelines. Once the SEZ Authority structure is established, the Steering Committee should immediately begin identifying Board members and SEZ Authority staff. Though the SEZ Authority cannot officially function until Parliament passes the SEZ Law, it is not too early to identify a suitable facility to house the Authority, and create all the necessary forms, documents, and associated standard operating procedures.

Revisit Ideas for One-Stop Shop (July – August 2015)

The SEZ Steering Committee should revisit options for a one-stop investor services center for SEZ users. The idea as currently outlined in the SEZ White Paper could be costly for the SEZ Authority, and might result in underutilization of regulatory staff housed at the center. Other options include a national one-stop shop, virtual one-stop shop, and vesting some authority with SEZ operators themselves.

Reform Customs (July 2015 – July 2016)

Jamaica requires a robust legal and regulatory framework that supports logistics activities. This includes the reform of Customs so that Jamaica can play in the same global logistics league as Singapore, Rotterdam, and Dubai. The government of Jamaica needs to place a greater emphasis on the role of Customs as an effective partner in the operation of SEZs. Jamaica's Commissioner of Customs has requested changes in the Customs Act and Free Zone Act to accommodate much of what is required for Customs to operate in a manner described in this chapter. This needs to proceed immediately and Customs agents and staff require training specific operating in SEZs.

Engage CARICOM (July 2015 – onward)

Jamaica and its CARICOM partners must negotiate a way in which goods produced or transshipped through free zones/SEZs are allowed to enter into another member state. One solution is to follow the U.S. lead with regard to USFTZs and NAFTA. Goods exiting a USFTZ that are bound for a NAFTA country are dutied upon leaving the FTZ as if they were being sold into the U.S. Customs territory. Thus, all duties on the imported inputs are paid once the good arrives in Mexico or Canada, and there is then no objection to the good coming out of an FTZ.

SUMMARY

RECOMMENDATIONS



5. Summary Recommendations

This chapter provides recommendations for the government of Jamaica to make well-informed decisions to create an enabling environment to proceed to the next steps of implementing the Caymanas SEZ project. The CSEZ project is inextricably linked to the design of the new SEZ regime and to Jamaica's Global Logistics Hub Initiative. Thus, there are several requisite actions that must proceed in advance of, or in tandem with, CSEZ development.

5.1 Priority Recommendations

The recommended actions specified below represent priority actions the government of Jamaica should take in the short term. These recommendations, however, do not constitute an exhaustive list of policies and measures to be addressed. Concerted efforts need to be taken among a wide variety of stakeholders in Jamaica to come to a consensus on specific issues germane to economic growth and a successful SEZ regime in Jamaica.

Ensure All Relevant Stakeholders Sit on Enterprise Team (June 2015)

The Enterprise Team should immediately be expanded to include all agencies with a stake in the development of the CSEZ. This includes the land asset holder, UDC, along with public utilities such as JPS, NWC, WRA, and telecommunications providers. The presence of representatives from these agencies is required to ensure that a comprehensive conversation takes place regarding the feasibility and development of the CSEZ.

Obtain Additional Market Feedback (July 2015 – December 2016)

This report only provides an initial assessment of the CSEZ site and project, with an additional examination of the proposed new SEZ regime. The CSEZ Enterprise Team and MIIC must continue to obtain additional market feedback through the following:

- **Issue RFP for the GLHI Market Analysis and Master Plan.** This study will provide market feedback on the appropriate sectors and markets that would likely utilize Jamaica's Logistics Hub, develop a long-term urban plan for the phased development of the Logistics Hub. The study will also prioritize various "nodes" within the Logistics Hub, package them into individual projects, and suggest how they can be developed in phases. The outcome of this work will provide important market feedback with regard to demand for space in the CSEZ. Annex 4 contains a TOR for the LHI Market Analysis and Master Plan.
- **Issue RFP for the CSEZ Feasibility Study.** The feasibility study is crucial for understanding the advantages and limitations of the CSEZ site, determining market demand for space in the zone, designing the zone master plan based on demand, determining the project's profitability, and finding a development scenario that

minimizes GoJ financial risk, while maximizing the return for a private developer—whether through a PPP or other contracting mechanism. Annex 3 contains a TOR for the CSEZ Feasibility Study. The RFP should be issued with the TOR in full.

- **Developer Engagement.** The GoJ should commence dialog with potential developers, including the types of dynamic firms that typically enter into business consortia for the purpose of developing and operating SEZs. Dialog with developers can take the form of informal conversations, formal workshops, or developer surveys. Annex 5 contains a questionnaire that can be used to guide dialog with developers.

Upgrade Off-Site Infrastructure (2015 – 2017)

The GoJ needs to take the initiative to upgrade key infrastructure required to render the CSEZ site “developer ready”. This is the case regardless of who develops the zone or what specific contracting mechanisms are used. This includes the following:

- **Wastewater Treatment.** Expand the capacity of the Soapberry Wastewater Treatment Plant, which will be operating at or near capacity by 2016. Consideration should be given to developing an industrial pre-treatment stage at Soapberry, which could treat industrial waste discharged from the CSEZ without the need for pretreatment by zone users.
- **Water Supply.** Construct an additional water treatment facility so that the CSEZ site has access to piped water. Currently there is not sufficient water supply from either NWC or wells located within the CEDA.

- **Power Supply.** Make the required upgrades and/or connections to JPS’s Doheny or Tredegar sub-stations in order to ensure reliable access to power for companies located in the CSEZ.
- **Drainage Mitigation.** Employ drainage mitigation measures recommended as part of the CSEZ Feasibility Study.

Draft SEZ Law and Regulations (July – October 2017)

Design of the new SEZ regime is the responsibility of the SEZ Policy Steering Committee. Assistance is being provided by an SEZ legal expert funded by the World Bank’s Foundations of Competitiveness and Growth Project. The SEZ Policy Steering Committee should immediately convene Working Groups in the areas suggested in Chapter 4. Design of the zone regime should proceed in advance of the actual legal drafting, covering topics in the checklist provided in Table 4 – 1.

Design an SEZ Regime that Maximizes Linkages to the Local Economy (July – October 2015)

One noteworthy goal of the SEZ White Paper is to maximize the linkages between SEZs and the Jamaican economy. This is one feature of modern SEZs that sets them apart from the free zones of the past, which acted more like economic enclaves. Jamaica's SEZ regime should be one that maximizes linkages to the local economy. There are a number of ways to effectuate this policy.

5. **Apply Customs duties only on the value of imported inputs** when a good is sold in the Jamaican Customs territory. The U.S. Foreign-Trade Zone Program, for instance, allows companies to choose to apply the duty applicable to the imported input or the final product—whichever is lower—though the duty is *only* applied to the value of the imported content.⁶² When the *entire* value of a good is subject to import duties, there is a disincentive for companies to utilize local raw materials since they will be treated in the same manner as imported goods if a final product is sold domestically. Such a system also creates a disincentive to manufacture products in Jamaica for the purpose of serving the local market since the value added of Jamaican labor is also subject to import duties when the good is sold into the customs territory.
6. **Apply GCT only on goods sold to domestic market.** The GCT should not be applied to goods raw materials and goods sold to firms located inside SEZs, until which time those products are entered into the Customs territory for sale on the domestic market. This creates a level playing field between imported and domestically produced goods, and guarantees equal treatment for Jamaican and imported raw materials and goods.
7. **Do not require registration and monitoring of firms located outside SEZs.** The SEZ White Paper proposes registration and monitoring of firms located outside SEZs by the SEZ Authority. In addition to creating an unnecessary layer of bureaucracy and other impediments, the policy does nothing to enhance backward linkages. It should be the role of Customs to monitor the flow of goods in and out of SEZs.
8. **One-Stop Investor Services for Entire Country.** The SEZ White Paper includes provisions for the SEZ Authority to organize a facility that will house multiple agencies under a single roof for the purpose of providing one-stop approvals, permits, and licenses to SEZ users. Panama Pacifico has a similar system, in which investors can get all necessary approvals within two hours in a single location. Such a center would enhance the attractiveness of Jamaica to potential zone users. Companies located

⁶² The U.S. Foreign-Trade Zone Program is highlighted in Case Study 8 in Annex 1 of this report.

outside SEZs, however, would not have access to the streamlined bureaucratic procedures. A small country like Jamaica might be better served by a one-stop facility or virtual one-stop shop that serves the entire country. This is the approach taken by El Salvador, where free zone users

utilize the national center.⁶³ It could be possible to pilot a national-level one-stop shop by initially only opening it to SEZ users. However, if this is the case, then the center is best organized by an entity other than the SEZ Authority.

Reform Customs (July 2015 – 2016)

Customs is arguably the most important feature of the SEZ regime with respect to attracting and retaining transshipment and logistics businesses in Jamaican zones. However, the current Customs practices of Jamaica do not allow it to play in the same global logistics league as Rotterdam, Dubai, Singapore. The Customs Law requires amendments that would allow for the following, among other things:

- Cargo de-vanning and re-vanning in SEZs;
- Domestic and international goods distribution from SEZs;
- Long-term storage in SEZs;
- Duties levied only on the value of imported inputs when final goods are sold into Jamaica's domestic customs territory;
- System for neutralizing import duties on goods produced in Jamaican SEZs that are destined for CARICOM markets. This will require multi-lateral negotiations with other CARICOM trading partners.

Adopt Good Environmental and Social Designs and Practices (July 2015 – onward)

The CSEZ should be designed and developed using Jamaican or international best practice standards for environmental and social protection, utilizing all necessary instruments such as EIAs, local stakeholder and community consultation, and proper resettlement policies, if applicable. The zone design should utilize green technologies and limit the impacts of climate change.

5.2 Action Plan and Institutional Roles and Responsibilities

Table 5 – 1 presents key actions that the government of Jamaica should take with respect to developing a new SEZ regime, creating an SEZ Authority, advancing the Global Logistics Hub Initiative, and developing the Caymanas Special Economic Zone. The matrix suggests institutional responsibilities for each action, and recommends a timeframe for completion. It is highly recommended that the CSEZ Enterprise Team, SEZ Policy Steering

⁶³ El Salvador's free zone regime is featured in Case Study 7 in Annex 1 of this report.

Committee, MIIC, Customs, and other stakeholders utilize this action plan to undertake the necessary steps to design a new SEZ regime and tender the CSEZ project to a private developer.

The activities and actions specified in the matrix are not intended to be exhaustive of everything required to implement the new SEZ regime, Global Logistics Hub Initiative, or CSEZ project.

Table 5 – 1: Key Institutional Roles and Responsibilities, and Suggested Timeline for Action

Action	Suggested Deadline ⁶⁴	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Development of Jamaica’s New SEZ Regime										
Draft TOR(s) for SEZ legal drafting consultant(s), and initiate tender process	June 2015	█	█	█	█					Responsibility: MIIC, with assistance from World Bank-funded FCG Project. FCG Project is funding SEZ legal drafting expert.
Establish SEZ working groups	June 2015	█	█	█	█					Responsibility: SEZ Policy Steering Committee. Working groups needed to define, discuss, and come to consensus on how the SEZ regime will be structured in these major areas: SEZ governance, SEZ establishment, SEZ users, taxes and incentives, investor services (registration and licensing), Customs, allowable activities, environment, security, and provisions for grandfathering provisions of old free zone regime.
Achieve consensus on structure and details of SEZ regime	June 2015	█	█	█	█					Responsibility: SEZ Policy Steering Committee, in consultation with GoJ, assisted by legal drafting team. Inter-ministerial and inter-agency agreement achieved on all areas pertinent to SEZ law and regulations. This must occur in advance of the first draft of the SEZ law.
Make decisions on how to grandfather existing free zone regime users in to new SEZ regime	June 2015	█	█	█	█					Responsibility: SEZ Policy Steering Committee in consultation with Free Zone Council, which has mandate to manage transition of firms that fall under Free Zone regime to the new SEZ regime. Need to engage in dialog with free zone business community on how business will be affected by new SEZ regime.
Approve SEZ Policy White Paper	July 2015			█	█					Responsibility: Cabinet, upon advice from SEZ Policy Steering Committee and SEZ legal expert. The SEZ Policy is an important step toward developing the new SEZ regime. The draft SEZ Policy, however, does not address some important core areas of the SEZ regime.
Initiate reform of Customs law and regulations as they pertain to SEZs	July 2015			█	█	█	█	█	█	Responsibility: Jamaica Customs Department. Revamp Customs to act as trade facilitators, rather than narrowly focused rules compliance and revenue collection role. Formulate new procedures for Customs operating in SEZs. Amend Customs law to allow for logistics activities at ports and in SEZs. Provide special training for Customs agents in SEZs.
Legal drafting team commences work	June 2015	█	█	█	█					Responsibility: SEZ Policy Steering Committee, with inputs from SEZ legal drafting expert. Drafting team should consist of an international lawyer familiar with SEZ legal design, SEZ expert, and Jamaican legal

⁶⁴ The GoJ was originally advised to undertake the first eight items in the Figure 5 – 1 from February to May 2015.

5. SUMMARY RECOMMENDATIONS

Action	Suggested Deadline ⁶⁴	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Seek input from business sector on SEZ regime	June 2015		█							<p>drafter. SEZ legal expert works closely with SEZ Policy Steering Committee on process of crafting best practices and gaining consensus throughout GoJ.</p> <p>Responsibility: SEZ Policy Steering Committee. It is important that business leaders from all major industries weigh in on SEZ regime: BPO/outsourcing, logistics, trading, manufacturing, tourism, other services</p>
Draft SEZ law	August 2015		█	█						<p>Responsibility: SEZ Policy Steering Committee, in consultation with Legal drafting expert. SEZ Legal expert drafts law in close consultation with SEZ Steering Committee and MIIC, and SEZ working groups on achieving best practices consensus on structure of SEZ regime.</p>
Draft SEZ regulations	September 2015			█						<p>Responsibility: SEZ Policy Steering Committee, in consultation with Legal drafting expert. During drafting of regulations, draft SEZ law can be distributed for comment to GoJ.</p>
Approve SEZ law and regulations	October 2015				█					<p>Responsibility: Cabinet. Cabinet should receive no surprises. Consensus on law should be achieved before legal drafting commences.</p>
Debate and pass SEZ law	December 2015									<p>Responsibility: Parliament. Key members of Parliament should be consulted before and throughout legal drafting process.</p>
Creation of SEZ Authority										
Discuss and debate structure of SEZ Authority; reach consensus.	June 2015	█	█							<p>Responsibility: SEZ Policy Steering Committee, with assistance from legal drafting expert. This is part of the legal drafting process, as described above.</p>
Create organizational structure for SEZ Authority	June 2015		█							<p>Responsibility: SEZ Policy Steering Committee, with assistance from legal drafting expert/SEZ consultant.</p>
Search for SEZ Authority Board members	August 2015			█						<p>Responsibility: SEZ Policy Steering Committee and MIIC, once it is assured that Cabinet and Parliament will approve the structure of the SEZ Board and Authority.</p>
Search for SEZ Authority Director	September 2015			█						<p>Responsibility: SEZ Policy Steering Committee and MIIC, once it is assured that Cabinet and Parliament will approve the structure of the SEZ Board and Authority.</p>
Search for location for SEZ Authority	December 2015				█					<p>Responsibility: SEZ Policy Steering Committee and MIIC</p>
Identify SEZ Authority staff for hire	December 2015					█				<p>Responsibility: SEZ Policy Steering Committee and MIIC. The individual tapped as future SEZ Authority Director should participate in hiring decisions, to be confirmed by Board.</p>

Action	Suggested Deadline ⁶⁴	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Create all necessary forms and documents required for operation of SEZ regime	December 2015									Responsibility: SEZ Policy Steering Committee and MIIC , assisted by identified SEZ Authority Director and staff. SEZ expert can assist.
SEZ Authority officially formed by SEZ Law	December 2015									Responsibility: Parliament. SEZ Authority and Board cannot commence any activities until officially formed by SEZ Law.
SEZ Authority Board formally constituted and SEZ Authority staff formally hired.	January 2016									Responsibility: SEZ Authority. SEZ Authority Board and staff should be identified prior to passing of law, but cannot commence duties until after law takes effect.
Global Logistics Hub Initiative										
Issue RFP for GLHI Market Analysis and Master Plan	June 2015									Responsibility: Jamaica Global Logistics Hub Secretariat. The study will create a master plan for the entire LHI, including recommended development sequence and timing, and suggested parceling of the LHI into individual projects that can be tendered, including the Caymanas SEZ.
Consultants conduct GLHI Market Analysis and Master Plan	August 2015–August 2016									Responsibility: GLHI consulting team. The GLHI study will be in two parts—a market analysis and a master plan. The entire study will last approximately one year.
Disseminate initial results from Phase 1 of GLHI Market Analysis	December 2015									Responsibility: GLHI consulting team and Logistics Hub Secretariat. The market analysis should be made available to consultants undertaking the Caymanas SEZ feasibility study.
GLHI Master Plan completed	August 2016									Responsibility: GLHI consulting team. This will help put the Caymanas SEZ in the context of the whole LHI.
Individual GLHI projects tendered for development.	Late 2016 - onward									Responsibility: Global Logistics Hub Secretariat and individual Enterprise Teams formed for the purpose of tendering individual projects. The GLHI will be developed as individual projects over a period of 10 to 15 years.
Development of Caymanas Special Economic Zone										
Consultant completes initial assessment of CSEZ	June 2015									Responsibility: SEZ consultant. The assessment looked at basic market conditions, characteristics of CSEZ site, connection with LHI, creation of new SEZ regime, and best practices in SEZ PPPs.
Research potential developers	June 2015 – July 2016									Responsibility: Enterprise Team, MIIC, SEZ Authority. Stakeholders should not wait until a CSEZ development RFP comes out to become acquainted with and consult potential developers. That can begin immediately. Annex 6 provides a sample questionnaire that can be used to guide discussions with developers.

Action	Suggested Deadline ⁶⁴	2015				2016				Notes
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Issue RFP for CSEZ Feasibility Study ⁶⁵	August 2015			█						Responsibility: Enterprise Team, MIIC. World Bank-funded FCG Project will fund CSEZ feasibility study.
Consultants conduct CSEZ feasibility study	October 2015 – September 2016		█	█	█	█	█	█	█	Responsibility: CSEZ feasibility study consultants. Study will take approximately 11 months.
Determine best development structure for CSEZ, based on CSEZ feasibility study and LHI study outcomes	September 2016							█		Responsibility: Enterprise Team, SEZ Authority. Feasibility study will suggest scope and scale of CSEZ project that minimizes GoJ risk and maximizes private developer returns. LHI study will rank priority of CSEZ project and other projects germane to GLHI.
Issue RFP for development of CSEZ	December 2016 - onward								█	Responsibility: SEZ asset holder, such as UDC (to be determined)
Select CSEZ developer and enter negotiations	December 2016 – onward								█	Responsibility: SEZ asset holder, such as UDC (to be determined).

⁶⁵ Another option is to tender the CSEZ Feasibility Study together with the GLHI Market Analysis and Master Plan, though that will not dramatically affect the timing of the two studies, as depicted in Table 5 – 1.

ANNEXES



Annex 1: Best Practices in Establishing SEZs through Use of Public Private Partnerships

This annex discusses best practices in establishing and operating SEZs. Included are eight case studies from around the world that highlight various models of zone regulation and development. Each case study highlights the extent to which the particular zone or regime is significant to the Jamaican context.

A1.1. Public-Private Partnership Models in SEZs

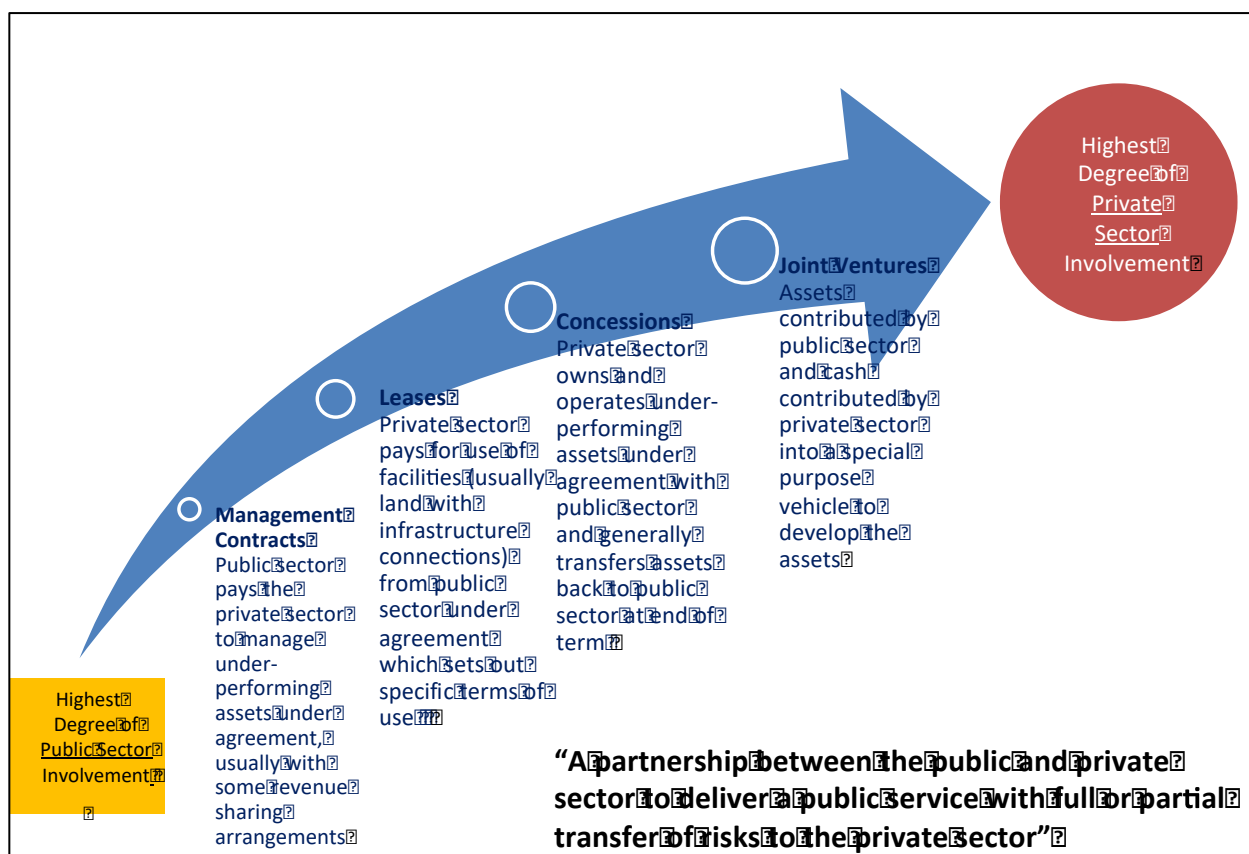


Figure A1 – 1: Models of public-private partnerships in SEZs.

There are numerous models for public-private partnerships in SEZs. Figure A1 – 1, above, illustrates several possibilities along a continuum from a high degree of public sector participation to a high degree of private sector involvement. The Jamaica PPP Policy, however, does not consider management contracts, leases, or build-own-operate schemes as PPPs. In Jamaica, if a project is identified as having the possibility to be developed as a PPP, then a feasibility study is required to determine the Business Case of the project, and determine the most viable options for proceeding with the project.

Private Development

Private SEZ development often takes the form of Build-Own-Operate (BOO) arrangements, whereby the private sector owns the project outright, and is granted a license by the SEZ Authority to develop, finance, design, build, own, operate, maintain, and retain operating revenue from the SEZ. It is still considered by many to be a form of PPP because of a strong and strategic interest by the government to encourage and facilitate the investment—often by providing off-site infrastructure upgrades. Outside of SEZs, BOO arrangements are common in the power generation sector. Case Studies 6 and 7 in this chapter provide examples of private development and operation of SEZs in the Philippines and El Salvador. In Jamaica, BOO arrangements do not constitute PPPs. Sale of government land to a private SEZ developer is covered under Jamaica’s Privatization Policy, not the PPP Policy.

Management and Operating Contracts

Management and operator contracts are generally shorter in duration than long-term lease or concession arrangements. They are used in cases where the private sector will not take risks in providing capital to develop an SEZ. Operator agreements are generally output or performance-based. The private sector is often paid a fixed fee, whereby the operator is not required to collect tariffs and does not take on the risk of the condition of the SEZ facilities asset. In other cases that require the operator to take on more risk, the management contract might be performance-based and place the operator in a position of responsibility over the condition and maintenance of the zone.

Simple management contracts are rarely seen as a PPP tool used in SEZs around the world, and such contracts do not fall under Jamaica’s PPP Policy. Where management contracts do exist, they are more likely to occur in one of two cases: 1) as part of a concessional arrangement between a zone authority and developer/operator; and 2) cases where a joint venture special purpose vehicle (SPV) issues a management contract to one of its investment partners to operate the zone. Case Study 2 highlights an example of the first example, above. Case Study 5 highlights an example of a short-term management contract in the UAE to reform the management of an SEZ authority.

Leases and Affermage

Leases and affermage are used when private equity and commercial debt are not available for infrastructure, and an SEZ authority wants to combine public financing with private efficiency. The SEZ Authority remains responsible for investing in assets, but places a greater commercial risk to private operator than with management contract. A long-term lease contract that is not part of a concessionary arrangement is not considered a PPP under the Jamaican PPP Policy.

In a lease contract, a portion of zone receipts goes to the SEZ Authority or asset holder. The operator does not receive a fixed fee. The remainder is retained by the operator. An affermage differs from a lease arrangement in that the SEZ operator retains receipts, but

pays an additional surcharge collected from tenants to the SEZ authority. This is in payment for investments the SEZ authority makes in zone infrastructure. Case Study 3 is an example of a long-term lease arrangement between an industrial park and industrial zone authority in Vietnam, whereby the private industrial park developer pays lease fees to the authority, and retains the rest of receipts for itself. Case Study 2 highlights a long-term lease in which the privately operated zone developer in Jordan pays the industrial park authority a percentage of revenues.

Concessions

A concession gives an SEZ operator a long-term right to design, develop, operate, maintain, and/or promote a zone for a specified period of time. The assets revert to the government or SEZ authority at the end of the concession period, including those purchased by the concessionaire. In a concession, the developer takes on its own financial risk in making the investment. Concessions, unlike built-operate-transfer (BOT) schemes, usually include an entire infrastructure system, rather than a single discrete project. Case Studies 1 and 2 highlight two different zones that utilized concessions as a form of PPP zone development. The Jamaican PPP Policy covers concessions as a form of public-private partnership.

Build-Operate-Transfer Schemes

BOT schemes are a classic tool for project finance. They are typically used to develop a discreet asset rather than a whole network. The Panama Pacifico SEZ, for example, utilized a concession arrangement because of the complex nature of the zone development. BOT projects are often greenfield in nature, while concessions are often used to rehabilitate brownfield infrastructure such as port and airports. In a BOT, the operator sometimes obtains revenues from a fee charged to the government rather than tariffs charged directly to consumers or tenants. BOTs are not favored methods of PPPs in SEZs. Governments turn to PPPs because they generally recognize that their strength does not lie in operation and management of industrial zones. Therefore, there is little incentive for the government to want the operation of the asset transferred back to them. The Jamaican PPP Policy covers BOTs as a form of public-private partnership.

Joint venture

In an SEZ joint venture, a special purpose vehicle (SPV) is often established with a joint share ownership structure. Joint ventures could also be executed through a partnership, where no separate legal entity is created. The split in ownership will determine whether the government is seeking to get the SEZ project off its balance sheet, or whether it wants to retain management control. Sometimes operation and maintenance are delegated to the private sector partner through a management contract. An example of a joint venture PPP is provided in Case Study 4. Under Jamaican policy, joint ventures are not considered to be public-private partnerships. The foremost authority to approve a joint venture

between a public agency and private sector company is the Ministry of Finance. The public agency interested in a joint venture is required to put forward a proposal to the Ministry that makes good commercial sense, and does not entail any unwarranted risks for the GoJ.

Joint ventures reduce exposure to risk for all involved parties. Each participant is responsible for profits, losses, and costs associated with the project. Although joint ventures represent a great way to pool capital and expertise and reduce the exposure of risk to all involved, they do present some unique challenges as well. For instance, if party A comes up with an idea that allows the joint venture to flourish, what cut of the profits does party A get? Does the party simply receive a cut based on the original investment pool, or is there recognition of the party's contribution above and beyond the initial stake? For this and other reasons, it is estimated that nearly half of all joint ventures last less than four years and end in animosity.

A1.2. PPP Transaction Process

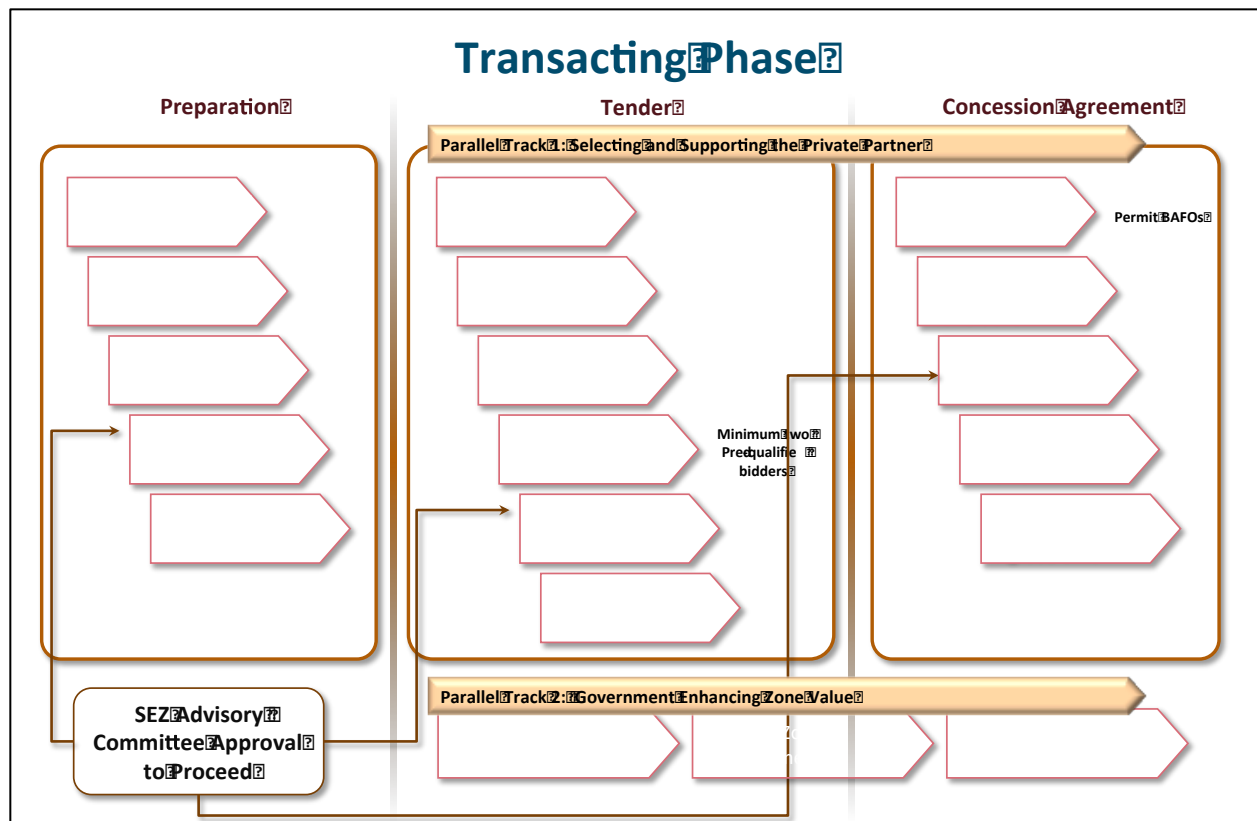


Figure A1 – 2: The PPP transaction process as recommended by the IFC.

Figure A1 – 2 highlights the important steps in a PPP transaction process. The process assumes that a “PPP” could be one of many different arrangements between a government, SEZ Authority, and private developer and/or operator. This was the process

that IFC guided the government of Panama through the Panama Pacifico SEZ concession, which is featured as Case Study 1 in this chapter.

Of particular importance to the PPP transaction process are the following:

- **The PPP process begins with feasibility studies**, either conducted by the government or initiated by the private developer. Governments typically initiate feasibility studies when: a) an asset is considered strategic to the national interest, and the government wants to attract the best developer or operator; or b) no private developers have initiated them. In cases where an SEZ authority allows private developers to initiate SEZs themselves, some sort of feasibility study is often required by law or regulation. See Case Studies 3, 6, and 8.
- **Developer leads begin early in the process.** The SEZ authority should begin to liaise with potential investors and developers as soon as possible, well in advance of a PPP tender. This will allow the government to get to know interested developers in the region, get their early feedback, and provide enough lead time for developer joint ventures to form in advance of a specific SEZ development RFP.
- **Government designs off-site infrastructure in advance of PPP tender.** The government should understand the infrastructure upgrades that are required for the success of the PPP project. This will help attract a private developer to the project. Such is the case with Jamaica, where the proposed Caymanas SEZ site requires upgrades to water, wastewater treatment, power, drainage, and roads.

The most likely PPP arrangements for the Caymanas SEZ would be a long-term lease issued to a private developer, either with or without concessionary covenants, in the manner of Case Study 2 or Case Study 3. It is also possible for FCJ to enter into a joint venture with other private investors, and form an SPV to develop and operate the zone, though this option carries the greatest financial risk for the GoJ.

A1.3. Case Study 1: Panama Pacifico SEZ—Transformation of a Former Military Base through Use of PPP Concession



Figure A1 – 3: Map of the country of Panama

This case study is significant because it highlights several important aspects of conceiving and developing a large complex multi-sectoral SEZ. Of particular significance are the following:

- *This is an example of repurposing existing infrastructure alongside*

new greenfield developments. Some lessons learned in Panama Pacifico SEZ could be useful if greenfield sites like Vernamfield are developed as SEZs.

- *The case is an example of a PPP concession to a master developer, afforded with specific development rights and obligations.*
- *Timeline. Large SEZ projects require long-term planning and take a long time to execute. The government of Panama received the site from the U.S. government in 1999; an initial feasibility study was undertaken in 2001; SEZ status was achieved in 2004; and groundbreaking began in 2008.*
- *The SEZ is not regulated by a national SEZ Authority. It has its own regulator, which is separate from the developer/operator. This arrangement is sometimes found in very large multi-sectoral SEZs. Other examples of single zone regulators around the world include Jebel Ali Free Zone Authority (UAE) and Aqaba Special Economic Zone Authority (Jordan). It is recommended, however, that Jamaica form a single regulatory entity that oversees all SEZs in the country.*
- *Project progress was slowed due to lack of a national champion to drive the process forward. This is something that Jamaica can learn from.*
- *The World Bank and IFC provided significant technical support throughout the process, most notably in developing a coherent development strategy for the SEZ, assistance in drafting laws and regulations, designing a master developer agreement, and managing the master developer selection process.*

Summary

Panama Pacifico is a 3,484-acre (1,410-hectare), multi-sectoral special SEZ located adjacent to the Panama Canal and Pacific Ocean in Panama. The site was formerly occupied by the U.S. Howard Air Force Base. In July 2004, Law 41 was passed to declare the site an SEZ and to create the Panama Pacifico Special Economic Zone Agency (APP). This agency acts independently, and is responsible for the administration and regulation of the SEZ. Through a public bidding process, the Panamanian government—advised by the World Bank and International Finance Corporation (IFC)—chose London & Regional Panama as the Master Developer of the Panama Pacifico Zone in 2007. The developer has the obligation to invest, develop, manage, and promote the zone. As of 2012, the zone had over 150 tenants.

Location and History of the Site



Figure A1 – 4: Map of the Panama Canal and location of Panama Pacifico SEZ

Howard Air Force base was a United States military base in operation for over 50 years. It was located 9.7 kilometers (6 miles) southwest of Balboa along the western bank at the southern end of the Panama Canal. While in service, the base was a busy hub for U.S. Air Force operations in Latin America.

The Panama Canal was always structured and operated as a world utility. As a U.S. government agency with break-even balance sheet, the U.S. was only an operator, without any commercial interests. Panama felt it could do a lot more with the canal and surrounding areas than just move ships.



Figure A1 – 5: The airstrip of the former Howard Air Force Base, now part of the Panama Pacifico Zone

On September 7, 1977, Panama and the U.S. signed the Torrijos-Carter Treaties, which guaranteed that Panama would gain control of the Panama Canal in 1999. As a result, Howard Air Force Base was closed on November 1, 1999, and the facilities were turned over to the government of Panama.

The Interoceanic Region Authority (ARI) was created by Panamanian law on February 25, 1993, to manage the vast properties transferred to the government of Panama by the United States under the Panama Canal Treaty. ARI was responsible for organizing, planning, managing, and disposing of all properties transferred to Panama, including the former Howard Air Force Base. The undertaking was tremendous, unprecedented, and challenging for Panama. One of the principal challenges for Panama has been to absorb and maintain over US\$4

billion dollars worth of military properties and convert them to other uses in a timely and efficient manner to maximize their value for the benefit of the people of Panama.

ARI's priorities included the following:

- Generating employment;
- Promoting exports;
- Developing new commercial, industrial, and tourism opportunities;
- Developing the maritime sector;
- Protecting the Canal watershed;
- Conducting functional and orderly urban planning.

ARI was also responsible for drawing up the necessary regulations for the rental, sale, concession, and administration of the transferred properties, and developing draft regulations for the Executive Branch of the Panamanian government concerning procedures pertaining to those matters. In carrying out these responsibilities, ARI coordinates with the appropriate Panamanian government agencies so that the transferred properties could be incorporated into Panama's development.

Before taking any actions on previously transferred properties, in the mid-1990s, ARI contracted with Nathan and Associates, a Washington, DC-based consulting company, to develop a General Plan and a Regional Land Use Plan to manage the land and natural resources within the Interoceanic Region.

Acquisition of the Site by the Government of Panama, and Creation of the SEZ

The government of Panama received the site on November 1, 1999. Most of the area around the base was uninhabited, but the base itself included valuable infrastructure such as an airport with an 8,500-foot (2,591-meter)-long runway, on-site roadways, and power, water, and sewerage infrastructure. Panama City can easily be reached in 15 minutes by crossing the Bridge of the Americas. In addition to that, Panama was—and is—naturally positioned as a world logistics platform due to the Panama Canal, enjoys relative political stability, has a pro-business government, and an international banking center.

The government had originally intended on turning the former military base into an airport and port. The transformation of the former Canal Zone into a thriving market place was one of Panama's main priorities. Some missteps early in the transfer process undermined confidence in the Panamanian government administration. Many of the earlier problems have been corrected, but not without also widely publicized criticism. For example, some top government officials were positioned to get housing at bargain prices without having to participate in the public bidding process, and some special land deals may have been arranged for friends of government officials.

During this time, the Panamanian government also explored the feasibility of transforming the former air force base into an SEZ. To this end, they received guidance,

support, and vision from the IFC. At this stage, the government took some crucial steps, which would later result in SEZ success.

- Conduct real market and regulatory research on the best uses of the former air force base;
- Created a local interdisciplinary professional unit that worked alongside international consultants to develop an inspirational vision, feasibility study, and SEZ “product”;
- Created dynamic feedback with various stakeholders;
- Generated excitement for the SEZ project, with extensive lobbying of the government by ARI.

The land received SEZ status in 2004 with the passing of Law 41 (2004). The law created the special legal, tax, customs, immigration, and business regime for the establishment and operation of an SEZ on the former Howard Air Force Base.

The enactment of Law 41 proved to be the one of the defining and successful cornerstones of the Panama-Pacific SEZ. It enabled the following best practices:

- Establishment of a regulator;
- One-stop investor services delivery;
- Inclusion of a training center for training of SEZ workers, as specified in Law 41;
- Concept of a master developer as the “commercial partner” of the regulator.

The biggest obstacle throughout the creation of the SEZ was a lack of national champion for the project, and lack of high-level commitment within the government. In hindsight, some stakeholders also feel that the SEZ could have benefited from a simpler tax incentive scheme.

Creation of the SEZ Regulator

In July 2004, Law 41 also created the Panama Pacific Special Economic Area Agency (APP), a dedicated agency structured to regulate, administer, develop, and promote the SEZ. As per the law, the government of Panama was to provide funding for APP for its first five years of operation. After that, the agency was expected to cover its own operational, maintenance, and investment expenditures.

APP includes a One Stop Shop, which was formed by Executive Decree 77 of June 1, 2006. The One Stop Shop offers companies in Panama-Pacific and their employees various services that apply streamlined processes, and individual treatment and personalized care of various administrative matters, including the following:

- Work permits for workers foreign records;
- Employment contracts;
- Visas for foreigners to invest or work in the area and their dependents;
- Registration of social security, payroll, and payment procedures;
- Approval of preliminary plans and projects construction and remodeling;
- Approval of environmental impact studies and other matters relating to urban development;

- Payment of municipal taxes.

Relevant government agencies are present within the One-Stop Shop, so that all bureaucratic procedures can be processed within the SEZ. To better effect this, APP implemented an automated application system.

In retrospect, stakeholders close to the project felt that APP could have done a few things better, including the following:

- Create more strict parameters for the One-Stop Shop structure and operations;
- Better training of staff to undertake investor services is extremely important, and they could have done better in that regard;
- Risk of APP becoming another big government agency;
- Risk that a self-sufficient autonomous agency looks better on paper than in reality. The agency is expensive to operate, and must find creative ways to earn revenue.

Contracting a Master Developer

Law 41 (2004) gave APP the right, as zone regulator, to enter into contracts with developers and/or Operators in order to develop, promote and/or operate part or all of the Panama-Pacifico SEZ. The developers contracted by APP are obligated by law to invest and develop part or all of the Panama-Pacifico SEZ in accordance with a Master Plan for the use of lands and the detailed zoning Plan that the developer must prepare and submit to APP for approval.

As per the law, APP designated a commission made up of national and international individuals. The commission adopted selection criteria for a developer, which ensured the participation of national and international companies with sufficient technical, financial, and administrative experience and capacity to develop the Panama-Pacifico SEZ. The commission also created the requirements for selection of the developer, and analyzed the proposals that were submitted. IFC provided support to help coordinate the master developer selection process.

APP issued an international tender for a master developer to develop and operate 3,450 acres of the SEZ. Seventeen firms submitted proposals to develop the zone. In 2007, the winning bid came from “London & Regional Panama”, a consortium of London & Regional Properties and Colombian banker Jaime Gilinski. L&R Panama was given a 40-year concession with the obligation to invest US\$ 705 million over the life of the contract, and US\$405 million in the first eight years, beginning in 2007. Under the terms of the agreement, L&R was granted exclusive development rights for 15 years, and limited rights for the rest of the 40-year concession.

The master development agreement allocated APP’s and the developer’s obligations and risks. The agreement also did the following, among other things:

- Defined the pricing of land (fixed base price and contingent price, determined by a transaction value or deemed sale);
- Determined minimum land takedowns by category of use;

- Specified the rules for land development to prevent land speculation;
- Spelled out the penalties for non compliance (e.g. government buyback options);
- Determined the government of Panama's on-site infrastructure development obligations.



Figure A1 – 6: Panama Pacifico Master Plan (Land Use Plan)

Upon receiving the master developer concession, L&R Panama hired the world-renowned engineering firm, Atkins, to create a master plan for the SEZ, with development occurring in four phases. L&R Panama also hired international consultants to assist and advise L&R ownership. During its first eight years (2008-2016), Panama Pacifico is slated for \$405 million in total real estate development. Actual investment as of December 2011 totaled \$188 million.

The Master Developer is entitled to purchase, lease and/or sublet goods required for the development of the area covered by the contract with APP under any of the procedures laid down in Law No. 41, 2005. L&R Panama, for instance, may sign contracts with end users in the SEZ for up to 20 years renewable.

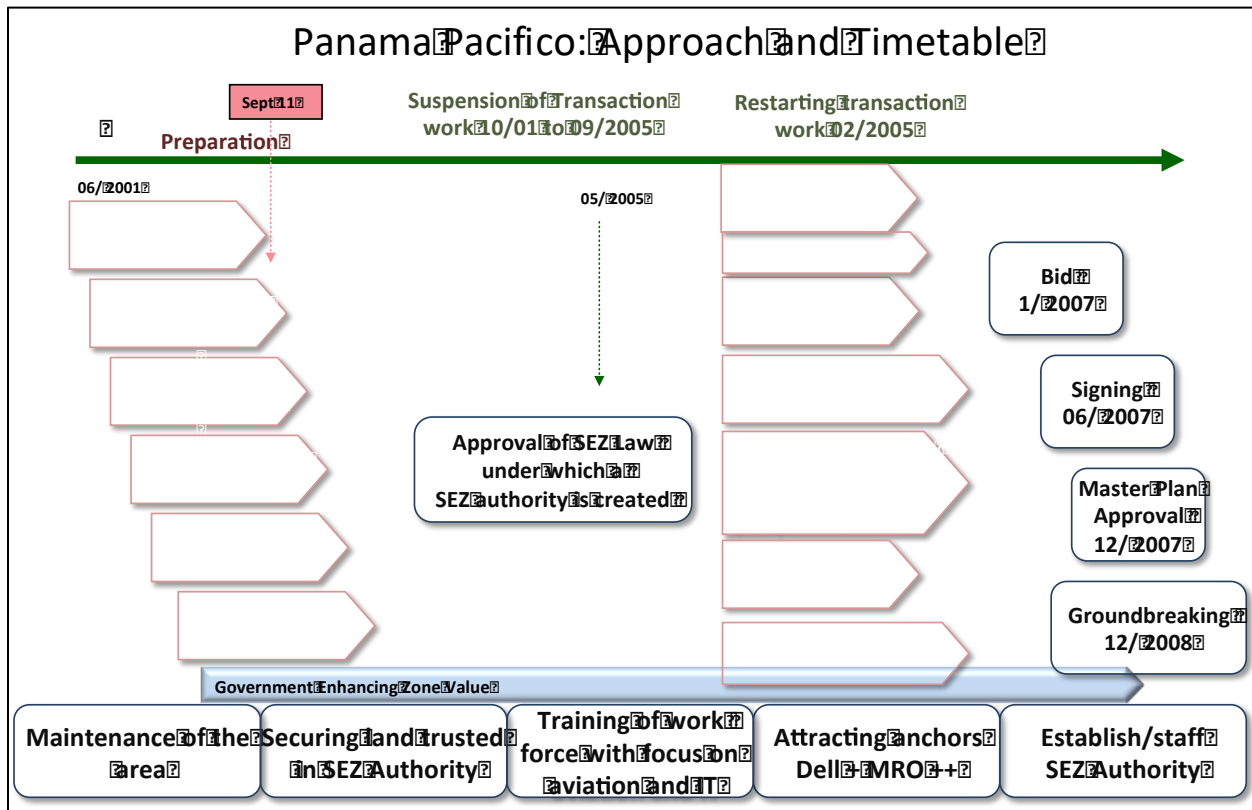
The tender of L&R Panama is considered a PPP success story by international SEZ standards. Upon reflection in hindsight, however, APP feels that it could have better improved the flexibility of the master developer agreement, and provided a greater level of detail in the master and zoning plans.

SEZ Development and Impacts

The Panama-Pacifico SEZ is expected to have approximately US\$ 4 billion in economic impact to Panama over the life of the project. APP's goals for the project are as follows:

- 3,459 acres (1,400 ha) in total area, 2,100 acres (850 ha) of which will be developed;

- 10.7 million square feet (1.0 million square meters) of commercial space;
- 20,000 homes and apartments;
- 40,000 jobs;
- Extensive parks, open spaces, and entertainment areas;
- Malls;



- Business and luxury hotels.

There are currently 5,450 on-site workers in the zone (2013). This is expected to double by 2015. The developer provides a worker transportation service. L&R Panama is developing Panama-Pacifico with the following features:

1. **Housing.** The SEZ offers four condo communities and five communities of single family homes.
2. **Retail.** Retail users began opening in the SEZ in 2010. This includes restaurants, bars, banks, dry cleaner, and day spa.
3. **Office Space.** The International Business Park—67 acres (27 hectares)—within the zone has eight buildings that are completed and open. The Business Park Master Plan was developed for L&R Panama by Ware Malcomb Architects. Buildings were designed by Ware Malcomb and Wakefield Beasley and Associates. Sixteen Class A buildings have been designed with 346,000 square feet (32,144 square meters) of leasable space.

Figure A1 – 7: Timeline of the Panama Pacifico SEZ development process

4. **Industrial Space.** The Pan-America Corporate Center within the zone provides 213 acres (86 hectares) of industrial park space-available in land parcels from 10,764 to 430,555 square feet (1,000 to 40,000 square meters). The industrial park is a fenced and guarded site that contains internal roads, utilities, high-speed internet, 24/7 on-site customs, 430,556 square feet (40,000 square meters) of facilities, and extensive tax incentives for 12 focused industrial activities. Eight leasable pre-built warehouse building are now open for lease. The developer can custom build to suit facilities for industrial companies that can be available within 12 months.
5. **Recreational Space.** Inclusion of parks, hiking and biking areas, championship golf course, and a sports center (future).
6. **Educational Space.** Inclusion of schools, colleges, and training centers.

To date, 150 companies have located in Panama Pacifico Zone, including 3M, KPMG, IP Leather, Panama Pacific Logistics, Wakefield Marine, Radio Holland, HSBC Banik, Samtec, BASF, and others.

Role of IFC Assistance

IFC played an important and prominent role in the transformation of Howard Air Force Base into a special economic zone. As a principal adviser to the government of Panama, IFC recommended that a private investor develop the former Howard Air Force Base site through establishing an SEZ. IFC's mandate included the following:

- Developing an SEZ project concept;
- Designing a coherent development strategy;
- Drafting laws creating a special economic zone based on international best practices and associated regulations;
- Developing a land use master plan, baseline environmental and demand studies, and a financial model to define the land price;
- Designing an innovative master development agreement;
- Managing an international master developer selection process.

During the six years of the mandate's tenure, IFC worked with Panamanian government authorities, business associations, opinion-makers, and political leaders to prepare the project and build consensus among diverse stakeholders. IFC played a lead role in promoting the project to potential international bidders, ensuring a transparent and competitive process, selecting the master developer, and advising on the contract structure.

A1.4. Case Study 2: Aqaba International Industrial Estate—An Industrial Estate Operated by PPP Concession

The case of the AIIE is important because it highlights the difficulty in attracting private sector investors to develop and operate industrial zones. The following is of particular significance:

- *The AIIE is an industrial estate that actually lies within a large multi-sectoral SEZ. At present, it is not anticipated that any SEZs in Jamaica will be of this style.*
- *On-site infrastructure of the industrial estate was initially funded by a grant from USAID, with the provision that a private enterprise receive a concession to operate the zone. If USAID had not had this mandate, the AIIE would never have had a private developer/operator.*
- *When a government prepares a concession for a private zone developer/operator, it should take care not to overinvest in other SEZs that might erode the profitability of the concessionaire.*
- *Concession agreements with private zone operators should be carefully structured to allow for a reasonable IRR to the private enterprise. This can be achieved by a) government subsidization of land and/or infrastructure; b) allowing the developer to sell plots of land to raise capital; and c) allowing the operator a reasonable period of time to achieve positive revenues from the project.*

The AIIE



Figure A1 – 8: The Aqaba International Industrial Estate, developed and operated by PBI Jordan

The Aqaba International Industrial Estate (AIIE) sits within the 106.18-square mile (275-square km) Aqaba Special Economic Zone (ASEZ) in southern Jordan. The AIIE itself is located on 434 acres (175 hectares) of land 0.4 miles (700 meters) east of the King Hussein International Airport. The industrial estate sits approximately 3.5 miles (5.5 km) by road from Wadi Araba Border Crossing linking Aqaba,

Jordan with Eilat, Israel. It is approximately 9 miles (14.5 km) by road to the Port of Aqaba on the Red Sea.

ASEZ Context

In 1998, the World Bank funded a feasibility study for the establishment of a freeport in Aqaba. The Aqaba Special Economic Zone was eventually formed in May 2001 as per the Aqaba Special Economic Zone Law No. 32 (2000). The zone encompasses the Red Sea city of Aqaba and its mountainous and desert surroundings. It is bordered to the south by Saudi Arabia, to the southwest by the Red Sea, to the west by Israel, to the east by mountains, and to the north by desert land. The ASEZ contain Jordan's only seaport, and the zone attracts some industries related to shipping and logistics. The primary industry promoted in the ASEZ, however, is "sun-and-sand" tourism, and significant hotel, resort, and recreational investments have been made in the zone over the past 13 years.

Though Aqaba has a tourism focus, there still existed a need for infrastructure suitable for warehousing and light industry. It was decided, therefore, to develop an industrial estate on land owned by the Jordan Industrial Estate Corporation (JIEC), a quasi-public/private corporation that owns and develops Jordan's public industrial estates. The initial pre-feasibility study for the AIE was conducted by a contractor funded by the United States Agency for International Development (USAID), which was already providing implementation support to the Aqaba Special Economic Zone Authority (ASEZA).

Development and Operation of the AIE

The initial on-site infrastructure for the 5.38 million-square foot (50-hectare) Phase I of the AIE was fully financed by a grant from USAID—US\$ 17.3 million plus US\$ 3 million for electrical infrastructure. USAID had stipulated that it would provide the capital financing provided that JIEC contract a private developer to operate the industrial estate. Given the geopolitical environment of the Middle East, particularly during the wars in Iraq and Afghanistan, it was a challenge attracting interested investors to operate the zone. A USAID-funded contractor thus provided support to JIEC during the developer search and tender process.

JIEC granted a 30-year concession to PBI Jordan to plan, finance, develop, market, and operate the AIE. PBI is a joint venture between Parsons Brinckerhoff (a U.S. engineering company), Suta Construction and Engineering LLC (a Turkish construction company), and unnamed private individual investors. As operator of the industrial estate, PBI Jordan charges tenants market-rate rent, and designs, constructs, and maintains the zone. In exchange for the concession, PBI Jordan agreed to pay JIEC 70 percent of their revenue.

After the first several years of operation, PBI Jordan has been a profitable venture for its stakeholders, which was achieved because of the in-kind grant of land for the concession period and initial capital funding by USAID. The developer/operator was also able to raise capital by selling land to tenants, which is preferable to leasing in Jordan. They were thus able to independently finance the 3.23 million-square foot (30-hectare) Phase 2 development without government or donor support. In exchange their own capital outlays, they negotiated a reduction in the percentage of Phase 2 revenues payable to JIEC as part of their concession agreement. PBI Jordan retains the same investor group as it did 13 years ago, but in different percentages. Parsons Brinckerhoff and Suta Construction and Engineering reduced their shares after they made money on the project, and individual investors have increased their own shares.

The AIE was recently ranked No. 10 as a Middle East Free Zone of the Future for 2013/14. The industrial estate was noted for its success in attracting over 30 companies in metal engineering, security industries, clean energy, food, consumer products, logistics, storage, and services supporting major tourism projects in Aqaba. Ten percent of the industrial estate is devoted to a commercial area that includes a gas station, bank, and other commercial businesses for use of companies and workers in the zone. The zone is

well maintained, and industrial estate design guidelines—including green areas, exterior color schemes, architectural specifications, setbacks, and other stipulations—afford the zone with a tidy uniform look.

Challenges and Lessons Learned

The primary challenge for PBI Jordan has been the overinvestment in industrial zones by the government of Jordan, a common problem in the Middle East and elsewhere in the world. JIEC has not reinvested its share of AIE revenue inside the industrial estate. Rather, it has developed additional industrial estates that potentially compete with the AIE for tenants. This practice undermines the profitability of private investors, who made their investment based on certain assumptions about demand and competition. It is for this reason that Parsons Brinckerhoff is not likely to participate as a shareholder in small industrial estate projects in the future.

The experience of PBI Jordan suggests that governments and zone authorities should not necessarily tender zone projects to large international companies. There is likely a greater chance of success in attracting investors who are specifically interested in projects in a specific country who know what they are doing in that market, and then “finding the needle in the haystack” that is a good fit for the specific zone project.

One of the most important qualities in a potential zone developer is the ability to do marketing, in order to promote the zone to potential tenants. This is more important than the ability of a developer to bring in specific tenants. The experience of PBI Jordan also demonstrates that the actual mix of industries in a zone differs from what might have been initially anticipated. It often takes one or two years for the zone operator to figure out what will work in the new zone based on the specific advantages offered by that location. Therefore, the performance goals the government sets as part of the concession should provide a reasonable amount of time for the concessionaire to attract tenants.

Many developers like PBI Jordan have been dissuaded from investing on other zones because of the infrastructure requirements that governments want to place on private developers. PBI Jordan cautions that it is nearly impossible to make money on a zones project when a government requires a developer to fund both on-site and off-site infrastructure. The concession deal needs to yield an attractive internal rate of return (IRR) to private investors. In the experience of PBI Jordan shareholders, most such projects require a level of subsidization from the government, either in land or infrastructure.

A1.5. Case Study 3: Que Vo Industrial Park—Private Development of an Industrial Zone through Long-Term Lease Arrangement

Vietnam is one of the world's fastest growing economies. The country has experienced an



Figure A1 – 9: The Canon factory in the Que Vo Industrial Park in Bac Ninh Province, Vietnam.

influx of foreign investors, particularly from Korea, Japan, and Singapore. Many of these firms locate in the country's industrial zones. Rapid industrialization has made it profitable for private infrastructure developers to construct and operate industrial parks with nearly 100 percent private capital. The case study of Que Vo Industrial Park in Bac Ninh Province is significant for the following reasons:

- *It represents a case of a long-term lease between a provincial industrial zone authority and private developer.*
- *The industrial park was initiated by the private developer, not the province.*
- *Private developers must first conduct feasibility studies to determine if a project is viable, and if a site has all the necessary infrastructure, utilities, and proper soil compaction. In the case of Que Vo IP, the provincial authority required that the developer first conduct a feasibility study.*

Que Vo Industrial Park

Que Vo Industrial Park is a 68.89 million-square foot (640-hectare) zone located in Bac Ninh Province, 20.5 miles (33 km) from Hanoi, Vietnam. Phase 1 (36.60 million square feet (340 ha)) of the industrial park (IP) opened in 2002, and has achieved 95 percent occupancy. Phase 2 (32.29 million square feet (300 ha)) opened in 2006, and is presently at 60 percent occupancy. Que Vo IP currently has 84 tenants, and the zone attracted 30 new investors in 2013 alone—mostly from Korea.

Most tenants in the zone manufacture or assemble parts for electronic products such as fax machines and cameras. Most inputs are imported with very little local content other than labor. This is typical of companies in zones throughout Vietnam. Investors in the IP include Canon, Tenma, Nippon Steel, Toyo Ink, and Mitsuwa from Japan; Foxconn, Mitac, Sentec and Seewell from Taiwan; Bujeon, Bokwang, Hanam Electric from Korea; and a handful of other companies from Malaysia and Singapore. Many of the companies located

in the zone already have operational experience elsewhere in Vietnam. Very few Vietnamese firms are present in the zone, as it is not the policy of Kinhbac City, the developer/operator, to market to local firms.

Developer-Initiated Investment

Industrial zones in Vietnam are regulated by the industrial zone authority in the province in which they are located. There is an increasing trend to solicit private developers to construct and operate industrial parks according to the province's master plan. Though the industrial authorities often issue tenders for private infrastructure developers, it is now also common for private developers themselves to initiate new zone development, particularly in areas in and around Ho Chi Minh City and Hanoi.

Kinhbac City Development Share Holding Corporation (KBC) is an infrastructure development company that was formed in 2002. In 2007, the company publicly listed shares on the Hanoi Securities Trading Center. The company has developed industrial parks in Bac Ninh, Bac Giang, and Ha Nam provinces, and Hanoi and Hai Phong cities. KBC was interested in developing an industrial park outside Hanoi, after investigating numerous possible locations throughout Vietnam. The company specifically requested the current zone site. KBC was attracted to the strategic location providing access to Noi Bai International Airport in Hanoi (33 km), Cai Lan/Hai Phong port (110 km) and Vietnam-China border (110 km). The location is also in the center of the electronics and precision engineering industry, with good preferential policies from the local authority. The land on the specific site was attractive since it was marginal farmland, already stable, and could take a high load capacity.

KBC submitted numerous reports required by the Bac Ninh Provincial Industrial Zone Authority, including feasibility studies, master plan, environmental studies, and others. The zone authority—feasibility studies, master plan, environmental studies, etc. The approval process took four years. KBC then received a 50-year lease on the land from the provincial authority. They sub-lease the land to IP tenants for periods not longer than their long-term lease with the province. In exchange for the long-term lease, KBC designs, constructs, and maintains all of the on-site infrastructure in Que Vo Industrial Park. KBC has about 60 office staff and a security and maintenance staff of more than 200.

A vocational school is located inside the zone, which teaches language to workers (mostly Japanese). A Que Vo IP tenant requested the school locate in the zone in order to train labor. Services offered by KBC include:

- Design consulting service to provide designs for tenants' factories;
- Assistance in obtaining investment certificates;
- Trees for landscaping;
- Assistance to tenants in connecting with provincial labor department for recruitment of workers;
- Short-term office rentals for new companies in the IP as they construct their facilities.

KBC imposes no design standards on tenants in the IP, and does not segregate clean from dirtier industries in their master plan—though the zone primarily caters to light industry. The developer must charge a lease price approved by the province. However, KBC makes its profit from charging additional fees such as an “Infrastructure Maintenance Fee” and “Maintenance Fee”. This two-tiered lease/fee structure is common throughout Vietnam.

Provincial Industrial Zone Regulator

The provincial industrial zone authority regulates IPs in the province, issues licenses, supervises construction and other activities in IPs, ensures environmental compliance, and other regulator functions. The Bac Ninh Industrial Zone Authority has a one-stop shop to issue investment certificates in 7 to 10 days if an investor’s dossier is complete. The Authority regulates 15 IPs in Bac Ninh and has a staff of 30 to 40 people. Each province in Vietnam is slightly different regarding the time and processes required to establish an industrial park. All land in Vietnam is owned by government, though private individuals and corporations can buy and sell user rights at market prices.

Challenges and Lessons Learned

KBC exemplifies how a private developer must very carefully research an investment location and plot of land in advance of making an investment decision. It is necessary to ensure that the plot of land is stable and can bear a significant load, as this cuts down on earthworks and construction costs. Private developers must also ensure that they locate in areas where the availability and capacity off-site infrastructure is suitable for their needs. If more infrastructure is required—wider roads, more power, etc.—it is difficult to get it from the government or utilities.

A1.6. Case Study 4: Thilawa SEZ—Development of an SEZ through a Joint Venture Special Purpose Vehicle

Myanmar is a country that is opening up to the world, and rapidly developing as a result. The Japanese have been first movers in providing development assistance to the country, and have been particularly active in rehabilitating ports and developing special economic zones. The Thilawa SEZ is Myanmar’s first SEZ. This case is significant for the following reasons:

- *The TSEZ is an example of an SEZ developed and operated through a joint venture PPP via a special purpose vehicle.*
- *A portion of the development capital came from the government of Japan.*
- *TSEZ has its own regulator, in charge of only regulating that zone. This is not recommended for small countries like Jamaica.*
- *The TSEZ regulator is also a shareholder in the joint venture development company, which is not considered an international best practice. It is advisable that an SEZ authority not be involved in the development and operation of and SEZ.*

Myanmar’s First SEZ

The Thilawa Special Economic Zone (TSEZ) is an SEZ that the governments of Myanmar and Japan have agreed to jointly develop. The 5,931-acre (2,400-hectare) zone surrounds Thilawa Port on the Yangon River, 14 miles (23 km) southeast of Yangon, Myanmar's largest commercial city. The TSEZ is the first SEZ to be built in Myanmar. Infrastructure development began in November 2013, and the zone will become fully operational in 2015. The zone will be developed in three phases.

The TSEZ has already received letters of intent from 45 companies interested in establishing manufacturing operations in the zone. The potential investors come from 11 countries, mostly Japan and Hong Kong. Most are interested in medium and light industries such as automotive assembly, automotive parts, electrical products, food processing, household goods, garments, footwear, gloves, and construction materials. Eighteen of the anticipated projects are export oriented; 23 are domestic market oriented; and 4 are logistics companies.

Joint Venture Special Purpose Vehicle

Development and operation of the zone is being undertaken by a joint venture special purpose vehicle known as the Myanmar Japan Thilawa Development Co. Ltd. (MJTD), established in October 2013. The shareholders consist of the following entities:

- The government of Myanmar (10 percent share), through the Thilawa Special Economic Zone Management Committee (TSEZMC), the body that regulates the Thilawa SEZ and through which the government participates in Class A development projects in the TSEZ;
- The government of Japan (10 percent share), through the Japan International Cooperation Agency (JICA);
- Consortium of private Myanmar investors (41 percent share), known as Myanmar Thilawa SEZ Holdings Public Ltd. (MTSH);
- Consortium of private Japanese investors (29 percent share), known as MMS Thilawa Development Co. Ltd. (MMSTD). Japanese investors include Mitsubishi Corp., Marubeni Corp., and Sumitomo Corp.

The Myanmar partner, MTSH, itself sold 2.145 million shares of its stock to the public. MTSH is independently developing the residential and commercial areas of the TSEZ. The joint development company, MJTD, is developing the Class A industrial areas, as per the joint venture agreement.

TSEZ Regulator

The TSEZ is regulated by the TSEZMC, which was established as per Article (5) of the Myanmar SEZ Law. It is a government licensing body, which approves investment of both foreign and domestic investors to locate in the TSEZ. The TSEZMC established a One-Stop Service Centre (OSSC) as per Section 11 (L) of the Myanmar SEZ Law. The OSSC provides a single window for investors in the TSEZ where they can get all the necessary services

and approvals, ranging from company incorporation, visa applications, labor registration, and export and import approvals.

A1.7. Case Study 5: Industrial City Abu Dhabi—Management Contract to Operate an Industrial Zone

Outside of PPP concessional arrangements—such as the case of PBI Jordan in the AIIE—simple management contracts to operate SEZs are not widespread. The case of ICAD involves a management consulting company that was given a five-year management contract to manage the zone authority after the zone proved to be a drain on government resources. The management contract helped establish a market basis for zone development, and introduced prioritized principles for attracting private sector participation through PPPs.

Industrial City Abu Dhabi

The Higher Corporation for Specialised Economic Zones (HCSEZ)—now “ZonesCorp”—is the apex organization in Abu Dhabi, UAE charged with developing, operating, and regulating SEZs and associated infrastructure. HCSEZ developed and operated Industrial City Abu Dhabi (ICAD) in a highly subsidized manner, and with no cost recovery objectives. Operation of ICAD consumed considerable resources of the government of Abu Dhabi. ICAD is a 3,459-acre (14-square km) zone targeting heavy-to-medium manufacturing enterprises, including engineering and processing, metal products, construction materials, fiberglass, and plastics assembly.

Short-Term Management Contract

Bearing Point, a U.S.-based management consulting company, was hired to restructure HCSEZ operations, and refocus it on promotion of private zones. Bearing Point was given a five-year management contract, and put in place a team to manage HCSEZ for five years. As part of the management contract, Bearingpoint restructured HCSEZ operations, enhanced its capabilities, refocused it on promoting private zones and PPPs, and assisted in the prioritization, development, and implementation of priority projects.

HCSEZ had a number of development initiatives in the pipeline—industrial cities, tourism zone, Science and Technology Complex, Airport Logistics Hub, etc.—and required management assistance in how to utilize PPPs to realize these projects. Each project needed to be separately analyzed because no single PPP solution would suffice for all of HCSEZ’s intended initiatives. The challenge was to determine what amount of public sector investment was required to attract private developers and operators. For projects in which economic fundamentals were attractive, HCSEZ could transfer responsibility to the private sector early in the initiative. For more challenging projects, however, HCSEZ would need to make a larger initial investment in order to attract private sector participation.

A five-part PPP approach was developed for HCSEZ.

1. HCSEZ would build the necessary backbone infrastructure.
2. HCSEZ would build infrastructure in phases according to market demand.
3. HCSEZ would investigate the interest of private enterprise to enter into PPPs as zone developers.
4. Based on market feedback, HCSEZ would modify its development of various projects in one of several ways: a) transfer backbone infrastructure to a private entity; b) continue to build on-site zone infrastructure, and then transfer responsibility to a private entity; c) continue to build infrastructure on a limited basis with built-to-spec buildings only, and then transfer to a private entity.
5. HCSEZ and selected private developers would negotiate final PPP contracts for each individual initiative.

A1.8. Case Study 6: Philippine ECOZONES—Transition to Private SEZ Development

The Philippine SEZ regime is one of the most comprehensive in laying out the requirements and obligations for establishing, developing, and operating SEZs. The case of Philippine ECOZONES is significant for the following reasons:

- *The Philippines transitioned from publically developed and operated zones to a policy of private zone development. PEZA continues to operate the original four public zones, but serves as regulator for all other zones. It is sometimes recommended that countries privatize their public zones. However, the Philippines case demonstrates how a country can keep its original zones in public hands while initiating a new regime for private SEZ development.*
- *PEZA lays out a detailed path for establishing and operating an SEZ;*
- *Feasibility studies and engineering studies are required for entities wishing to establish and SEZ;*
- *The concept of SEZs is very broad, and numerous industries—manufacturing, IT, medical, tourism, etc.—are allowed in zones.*

Costly Development of Public Zones

The Philippines, like many countries, began its zones program by publicly developing and operating export processing zones (EPZs). Government originally developed and operated four EPZs—Cavite, Baguio City, Mactan, and Bataan—with the purpose of generating employment, generating foreign exchange, and as an instrument to disperse industries throughout the country. The government of the Philippines spent a tremendous amount of money to build and maintain these zones. Because the government’s goal was to disperse industries into remote areas such as the Bataan Peninsula where there was no infrastructure, they were required to spend extra funds to install off-site infrastructure and utilities there.

New Policy for Private SEZs

To curtail costs, the government of the Philippines enacted a policy of no more publicly funded EPZs. Instead, they began encouraging private industrial estates in designated areas within a 50-mile (80-km) radius of metro Manila. The four original zones are filled to capacity, but continue to be publicly operated and maintained by the Philippines Economic Zone Authority (PEZA).

The SEZ Act of 1995 created the Philippines Economic Zone Authority, which is attached to the Department of Trade and Industry. PEZA's role as regulator is to register companies, grant incentives to SEZ users, facilitate business operations in SEZs, extend assistance to SEZ users, and promote investment in SEZs. All new economic zones are developed by the private sector, and are subject to PEZA regulatory oversight.

Guidelines for Establishment of New SEZs

The Philippine SEZ regime is one of the most comprehensive in its requirements for establishing, developing, and operating SEZs (called "ECONZONES"). The SEZ Law stipulates that SEZs be developed in selected areas with highly developed—or the potential to be developed into—agro-industrial, industrial, tourist/recreational, commercial, banking, investment, and financial centers. The law specifies a long list of geographic areas where SEZs can be established in order to ensure viability and geographical dispersal of zones. SEZs may contain any or all of the following—industrial estates (IEs), EPZs, free trade zones, and tourist/recreational centers. Zones can be developed through any of the following schemes:

1. Private initiative;
2. Local government initiative, with assistance of the national government;
3. National government initiative.

New SEZs receive an official declaration by the President of the Philippines, upon recommendation by PEZA.

If one of the above entities wishes to establish an SEZ outside the areas specifically listed in the law, they must conduct a detailed feasibility study and engineering study that conforms to the following criteria:

- The proposed area must be identified as a regional growth center in the Medium-Term Philippine Development Plan or by the Regional Development Council;
- The required infrastructure exists in the proposed SEZ, such as roads, railways, telephones, ports, airports, etc., and the site has the capacity to absorb improvements;
- Water and and electric power supply for use of the SEZ are available;
- Vacant lands must be available for industrial and commercial development and future expansion of the SEZ, and lands adjacent to the SEZ must be available for development of residential areas for the SEZ workers;
- Skilled, semi-skilled, and non-skilled trainable labor force are available in and around the SEZ;
- The area must have a significant incremental advantage over existing SEZs and its potential profitability can be established;

- The area must be strategically located;
- The area must be situated where controls can easily be established to curtail smuggling activities.

If an area does not meet the above requirements, there is still a possibility to get an SEZ project approved if the initiative is purely private and/or local government without any national government exposure and is part of an allowable scheme under the Build-Operate-Transfer Law, and can be secured against smuggling activities and show considerable development within five years.

The SEZ Law specifies the types of industrial activities that are eligible to register and receive incentives from PEZA. They include:

- Export manufacturing;
- IT service exports;
- Tourism;
- Medical tourism;
- Agro-industrial export manufacturing;
- Agro-industrial biofuel manufacturing;
- Logistics and warehousing services;
- Economic zone development and operation
- Facilities providers—construction of factory buildings or IT facilities, retirement facilities for foreigners
- Utilities

PEZA maintains standards by which all zone developer/operators must meet. This helps maintain a high level of quality in zones throughout the country, and investors know they can expect a certain level of standard in a Philippine ECOZONE. Those standards are as follows:

1. **Manufacturing Economic Zone Developer/Operator:** Must develop, operate, and maintain the SEZ with the following required infrastructure: a) lighting; b) power system; c) water supply and distribution system; d) sewerage; e) drainage system; f) pollution control devices; g) community facilities; h) paved roads; and i) administration building. There are 65 registered.
2. **IT Park Developer/Operator:** Must develop, operate and maintain of an area as a complex capable of providing infrastructure and other support facilities required by IT enterprises, as well as amenities required by IT professionals and workers, or easy access to such amenities. There are 178 registered.
3. **Tourism Economic Zone Developer/Operator:** Develop, operate, and maintain an integrated resort complex, with prescribed tourist facilities and activities, such as but not limited to sports and recreation centers, accommodations, convention and cultural facilities, food and beverage outlets, commercial establishments and other special interest and attraction activities/establishments. The complex must be provided with roads, water supply facilities, power distribution facilities, drainage and sewage systems and other necessary infrastructure and public utilities. There are 15 registered.

4. **Medical Tourism Economic Zone Developer/Operator:** Develop, operate, and maintain a Medical Tourism Park or Medical Tourism Center, which is planned and designed in accordance with the standards of the Department of Health and the Department of Tourism. The Center must have support facilities and services required for health and wellness, and be provided with required infrastructure facilities and utilities. There are two registered.
5. **Agro-Industrial Economic Zone Developer/Operator:** Develop, operate, and maintain an agro-industrial economic zone planned and designed to have support facilities and services required for processing and agro-based manufacturing facilities, and provided with the required infrastructure facilities and utilities. There are 17 registered.
6. **Retirement Economic Zone Developer/Operator:** Develop, operate, and maintain a Retirement Economic Zone Park or Center, planned and designed in accordance with the accreditation standards of the Philippine Retirement Authority, and provided with the required infrastructure facilities and utilities.

A1.9. Case Study 7: El Salvador—Private Free Zone Development; Small Efficient Regulator

The Case of El Salvador is significant for several reasons:

- *The regime allows for private zone development, and the government is no longer participating in the operation of new free zones.*
- *El Salvador chose to streamline bureaucratic procedures for all companies, not just those in zones. The one-stop investor services, therefore, are not tied to the free zone regime. This is an example that Jamaica should consider following. It would help put companies inside and outside zones on equal footing with regard to bureaucratic procedures. It would also help prevent a Jamaica SEZ Authority from becoming an overly large public agency that replicates the bureaucratic functions of existing line agencies.*
- *El Salvador does not have a zone authority. Rather, free zones are regulated by an office within the Ministry of Commerce. This keeps regulation of zones simple and inexpensive. This is a model that Jamaica might want to consider in order to avoid establishing a complex SEZ Authority.*

A Regime of Private Zones

Like the Philippines, the first economic zone (zona franca) in El Salvador was developed by the government. Subsequent zones have all been privately financed, developed, and

operated. There are now 17 free zones in El Salvador, five of which also function as service industry parks. Eligible businesses must be engaged in industrial, agricultural, or agro-industrial trade.

Free Zone Regulator

Unlike many countries, El Salvador does not have an “SEZ Authority”. Rather, free zones are regulated by the Ministry of Commerce with a small staff. The Ministry does not involve itself with the develop or operation of zones. Activities carried out in free zones are regulated by the same government ministry or agency that would regulate a business located outside a free zone. It is worthwhile to note that El Salvador does not utilize its free zones as a pilot for bureaucratic reform, so there is no need for administrative procedures that substantially diff inside and outside free zones. This prevents the duplication of bureaucratic functions by a zone authority and regular line agency.

One-Stop Investor Services for All

The Registry of Commerce Office of the National Registry Center has a one-stop “Integrated Services Window” so individuals can submit in one place the requirements to open a business requested by the National Registry Center, Ministry of Finance, Ministry of Labor, and Social Security Institute. The Center is staffed with representatives from various agencies and ministries. The Center is able to issue the following:

- Company registration;
- Initial balance registration;
- First time establishment registration;
- Income Tax Identification Number;
- VAT Identification Number;
- Invoices correlative registration;
- First-time employer’s identification Number
- Work place registry

The National Investment Office also operates a “one-stop” window to help companies and individuals complete requirements needed to obtain a license to establish a business in El Salvador. They also provide assistance with labor issues, immigration, and information about the free zone regime.

It is important to note that the one-stop service windows are not tied to the regulation or operation of free zones. They offer streamlined business procedures for *all* individuals and companies, not just companies located in zones. This puts companies outside free zones on equal footing with those inside zones with respect to the ease of doing business. As a service to investors, free zone operators often do all the legwork for new tenants, making trips to the one-stop center on behalf of clients, and filling in forms if necessary. The client just needs to make one trip to the center themselves.

The free zone regime is completely decentralized with respect to licensing a free zone corporation. Private free zone operators in El Salvador do have the authority to grant

licenses to most zone users. The free zone operator must send a letter to the Ministry of Commerce to notify them of the issuance of the license. This works well for routine cases, but the Ministry still needs to be involved for unorthodox company registrations.

Free Zone Law Reform

The El Salvador Free Zone Regime is authorized by the Industrial Free Zone and Commercialization Act of 1998, Decree No, 405. The free zone regime allowed for unlimited tax holidays based on export performance. The WTO, however, is calling for all middle-income countries to replace such zone regimes by December 31, 2015. El Salvador has thus been pressured to amend its Free Zone Law. The proposed new law would eliminate the export requirement, raise the tax for all zone enterprises to 5 percent, but maintain a zero percent tax rate for companies that locate in free zones outside a metropolitan area. There will be a phase-in period of taxation in order to avoid negative effects to existing companies who are currently subject to no taxes. Thus, the end of tax exemptions and other changes to the regime will take place in five years (2020) for existing companies.

A1.10. Case Study 8: U.S. Foreign Trade Zone Program—Gold Standard for Customs Control in an SEZ

The U.S. Foreign Trade program represents the gold standard for how customs should handle importation and exportation from SEZs. In this respect, it is a good model for Jamaica as it develops a new SEZ regime to support its Logistics Hub Initiative. Jamaica Customs currently struggles with the following aspects of Customs clearance, which will definitely hinder its ability attract logistics, transshipment, and manufacturing companies from abroad.

1. *Duty levied on entire final product, not value of imported input. Jamaica Customs would like to charge import tariffs on the entire value of a final product produced in a Jamaican zone. The international best practice—and the practice highlighted in the USFTZ case study—is to levy tariffs only on the value of imported inputs. The design favored by Jamaica Customs would create a disincentive for foreign manufacturers to produce anything in Jamaica for the local market.*
2. *Distribution not allowed from within zone. Glaxo pharmaceutical company wanted to put a regional distribution center in Jamaica, and begin operations by first supplying the Jamaican market. Glaxo wanted to import all the pharmaceuticals into Kingston Wharves Free Zone. However, Customs wanted Glaxo to locate in a separate building off-site so that they could collect duties up front. As a compromise, Glaxo must submit an inventory forecast every six months, which the Commissioner of Customs must approve. These individual deals will not be attractive to firms that want to use Jamaica as a hub for logistics, transshipment, and distribution.*
3. *Container unpacking and repacking not allowed without imposition of duty. A company wanted to import containers of tires into a free zone, unpack and repack them, and then re-export them throughout the Caribbean. This is presently not allowed in Jamaican free zones. A temporary solution was worked out whereby the company*

would bring the tires to Kingston Wharves warehouse, pay Jamaica Customs J\$35,000 per container, and then transship the tires. This provides a severe disincentive to any business that wants to utilize Jamaican SEZs for transshipment activities.

All of the above scenarios could be accommodated within the USFTZ program. In doing so, however, strict inventory control requirements are placed on all zone users. It requires a very active participation of U.S. Customs.

The benefits associated with locating in a U.S. zone are not as extensive as in many other countries. The USFTZ program provides no fiscal incentives. In many countries, the most important benefit SEZs offer is access to serviced industrial infrastructure. This is not the primary draw in the United States, where infrastructure is plentiful in most areas. Rather the primary benefit of FTZs is the savings they offer in the form of customs duty and excise tax exemptions on re-exports and deferral on imports.

The USFTZ program is not necessarily a user-friendly one. Unlike many SEZ regimes around the world, the goal of the U.S. program is not to improve bureaucratic procedures for companies; it actually adds to them. The time it takes to receive a zone user approval is 10 to 12 months.

Zone operators can either be private or public corporations, though the FTZ Board gives preference to public corporations. This is due to the fact that U.S. FTZs are operated as public utilities, and public corporations are seen as better suited to such responsibilities. The degree of public versus private involvement in U.S. FTZs varies according to the sponsorship and operational framework of the particular FTZ project. Private ownership of zone land and facilities is allowed as long as the zone operator retains the necessary control to operate the approved zone.

U.S. Foreign Trade Zone Program

In the United States, special economic zones are referred to as “foreign trade zones” (“FTZs”). They are geographically delimited areas declared to be outside the normal customs territory of the U.S. The program is created by the U.S Foreign Trade Zones Act of 1934 (P.L. 73-397, 19 U.S.C. 81[a]-81[u])⁶⁶. The FTZ Act is considered a Customs and Border Protection (CBP) law. During the Great Depression of the 1930s, tariffs on imported goods were as high as 53 percent. This provided a severe disincentive to U.S. enterprises that required the use of imported goods. The FTZ Program was thus designed to encourage U.S. trade while encouraging domestic business activity.

U.S. FTZs enhance the competitiveness of companies by allowing savings in the following ways: 1) allowing customs and inventory efficiencies (i.e. enterprises do not need short-term cashflow to pay import tariffs while raw materials and components are being stored in the zone); 2) duty reduction on “inverted tariff structures” (i.e. where tariffs are higher

⁶⁶ Regulations 15 CFR 400 have been issued by the U.S. Foreign-Trade Zones Board for establishing and maintaining an FTZ. The “Foreign-Trade Zone Manual”, which provides guidance for FTZ users and operators can be found at <http://www.cbp.gov/sites/default/files/documents/FTZmanual2011.pdf>

on imported components than on finished products, enterprises can pay the lower of two tariffs); and 3) duty exemption on goods exported from, or consumed, scrapped, or destroyed in, a zone.

The USFTZ program itself does not include any fiscal incentives, unlike many SEZ regimes around the world. Companies located in FTZs must pay the same taxes that are applicable outside the zone, with the exception of import duties. FTZ are sometimes situated within state or municipal “enterprise zones”, which often afford investors tax breaks or other fiscal and non-fiscal incentives. Where these incentives do exist, they are tied to local authorities and in no way administered by the USFTZ program.

There are 174 active FTZs spread throughout the country, with at least one in each U.S. state and Puerto Rico. An FTZ must be located within 60 miles of a U.S. port of entry in order to allow Customs supervision of the zone⁶⁷, and each port of entry is entitled to at least one zone. The FTZ program allows for two types of zones: 1) general purpose FTZs that are operated by a public or private corporation, in which multiple enterprises can establish themselves or use warehouse facilities inside the zone; and 2) stand-alone FTZs (known as “subzones”), in which a single enterprise acts as its own zone. Subzones are technically part of the closest FTZ in the state in which the enterprise is located. Ninety percent of zone activity in the U.S. occurs in stand-alone subzones.

There are over 275 active manufacturing operations inside FTZs. In 2012, over 13 percent of foreign goods entered the United States through FTZs or bonded warehouses. Of this, 72 percent of this was crude oil, and most imports arriving through FTZs were ultimately consumed in the U.S. Key outputs from FTZ manufacturing activities include crude oil byproducts such as gasoline, diesel, jet fuel, kerosene, and petrochemicals, along with automobiles, consumer electronics, pharmaceuticals, and machinery. The majority of inputs entered into FTZs are of domestic origin (58 percent, or US\$429 billion); 42 percent of inputs are imported from foreign countries with an annual value of US\$429 billion. Employment in USFTZs is 370,000, representing 3 percent of the U.S. manufacturing workforce.

Small-Sized Regulator

Unlike most SEZ regimes around the world, the USFTZ program is not regulated by an SEZ Authority. Rather, the program is overseen by an office within the U.S. Department of Commerce, much as in the case of El Salvador’s free zone regime. The Foreign Trade Zones Board consists of the Secretary of Commerce and the Secretary of the Treasury. The Board’s role is to license and regulate zones. It does not involve planning, financing, or operating them. The Office of the Foreign Trade Zones staff supports the Board in this

⁶⁷ The U.S. FTZ Board has been willing to relax this requirement in some cases if the zone is still within reasonable driving distance from a port of entry, and because shipment manifests and inventory information can now be easily submitted electronically—and in real time—to Customs.

mandate. In contrast with the bloated SEZ authorities one sees in many countries, the Office of the FTZ Board staff is run by a small staff of less than 10 persons.

Establishing an FTZ

A new FTZ can be established by a public or private corporation, though the FTZ Board gives preference to public corporations—port authorities, municipalities, etc. This stands in contrast to SEZ regimes in other places around the world—such as Philippines, El Salvador, Vietnam—where private development of zones is now the preferred option. This is partly because FTZs are considered “public utilities” by U.S. law, and must undertake fair pricing and uniform treatment to all users as a result. When the program was founded, utilities were exclusively in the public domain, and thus the preference for public corporations continues today. In order to be considered as an FTZ operator (called a “grantee”), a special act of the legislature in the state in which the zone will be located is required to support the application of a grantee. This system is not seen in SEZ regimes elsewhere in the world.

Corporations interested in operating an FTZ must submit an application to the FTZ Board. They are required to provide the following information to the Board:

1. Location and qualifications of the area where the zone will be established, including land and water area, means of segregating the zone from the customs territory, and possibility of expansion areas;
2. Facilities the corporation intends to provide in the zone, existing facilities they hope to utilize, and the cost of development;
3. The time the applicant expects to commence and complete construction of the zone and facilities;
4. Methods proposed to finance the zone development and operation.

The FTZ Board accepts or rejects the application, and grants the status of “grantee” to the new zone operator. The new zone must be activated within five years after the grant. Private ownership of zone land and facilities is allowed as long as the grantee retains the necessary control to operate the approved zone.

The FTZ Board is clear in the facilities that an FTZ grantee must provide to zone users. These include:

- Adequate loading and unloading facilities, including slips and docks if the FTZ is based in a seaport;
- Adequate transportation connections with surrounding area in order to permit access to the zone and allow Customs to guard and inspect goods in the zone;
- Adequate facilities for fuel for power and lighting in the zone;
- Adequate water and sewer mains throughout the zone;
- Adequate facilities for Customs and employees of other government employees whose duties and presence are required in the zone;
- Adequate enclosures to segregate the zone from the customs territory for protection of revenue, with suitable provisions for entry and exit of goods and people.

In addition to providing its own facilities, the zone operator can allow others to erect buildings and structures inside the zone. This, however, required approval of the FTZ Board. The zone operator cannot construct residential areas inside FTZs.

Locating in an FTZ

Any company can utilize the facilities of an FTZ, provided they abide by the laws and regulations governing customs and FTZs and have approval from the FTZ Board. Companies are also allowed to establish stand-alone zones (called “subzones”), in which their entire facility is deemed its own zones. Nearly automotive manufacturing facilities, for example, in the United States are their own stand-alone sub-zones. Technically, the operator/grantee of the closest FTZ in the same state as the enterprise must make the application to the FTZ Board to establish the subzone.

The USFTZ program was not designed to provide streamlined bureaucratic procedures to zone users. Compared to SEZ regimes in other countries, the U.S. program is not a best practice in this regard. For instance, it takes a minimum of 12 months to receive FTZ Board approval for zone users that intend to establish manufacturing operations in a zone. The application must be posted in the Federal Register and the FTZ Board’s website, and available for public comment.

An enterprise can undertake manufacturing in an FTZ provided that it uses foreign materials or components in the production process. In its application, a new zone user must provide the following:

- Summarize the reasons for the application and the intended economic effects;
- Description of the activity, final product, domestic inputs, required foreign inputs, tariff schedule on the imported inputs, and plant value added;
- Annual production capacity of the plant;
- Estimate of the annual benefits from the FTZ and if alternative procedures have been considered as a means of achieving those benefits outside an FTZ;
- Information on the industry and the extent of international competition.

The intended FTZ activity cannot conflict with U.S. trade policy or harm domestic industry outside zones. When determining whether an enterprise can locate a manufacturing facility inside a zone (or establish a subzone), the FTZ Board considers market conditions, price sensitivity, degree and nature of foreign competition, intra-industry and intra-firm trade, effects on imports and exports, ability to conduct the proposed activity outside the U.S. with the same U.S. tariff impact, and the net effect on U.S. employment and the economy. The FTZ Board requires a net positive economic benefit on employment, exports, creation or retention of value-added activities, and technology transfer. Unlike other SEZ regimes, the FTZ Board does not publish a negative list of industries forbidden in zones—considered an international best practice. Rather, the FTZ Board can prohibit any activity in a zone that is detrimental to the public interest, health, or safety.

The Office of Foreign Trade Zones operates on a cost-recovery scheme, based on application processing time. Thus, fees are high relative to other SEZs around the world. The application fee for a manufacturing activity in the zone, for instance, ranges from US\$ 4,000 to 6,500. Applications are subject to a period of public comment of 40 days, and take from 10 to 12 months to process. This lengthy period of time should not be considered an international best practice, and has actually had the effect of making it difficult for small enterprises to participate in the FTZ program.

Duty-Free Imports—The Heart of the FTZ Program

As previously mentioned, the primary purpose of the USFTZ program is to provide savings to zone users in the form of duty-free importation of foreign raw materials and components. All domestic and foreign merchandise can be brought into a zone duty-free, where it can be stored, sold, exhibited, broken up, repacked, assembled, distributed, sorted, graded, cleaned, manipulated, manufactured, and mixed with foreign or domestic merchandise. A customs officer has the right to supervise and inspect any foreign goods brought into the zone. The original goods or final transformed product can then be exported, destroyed, or sold into the domestic customs territory. Figure A1 – 10 illustrates

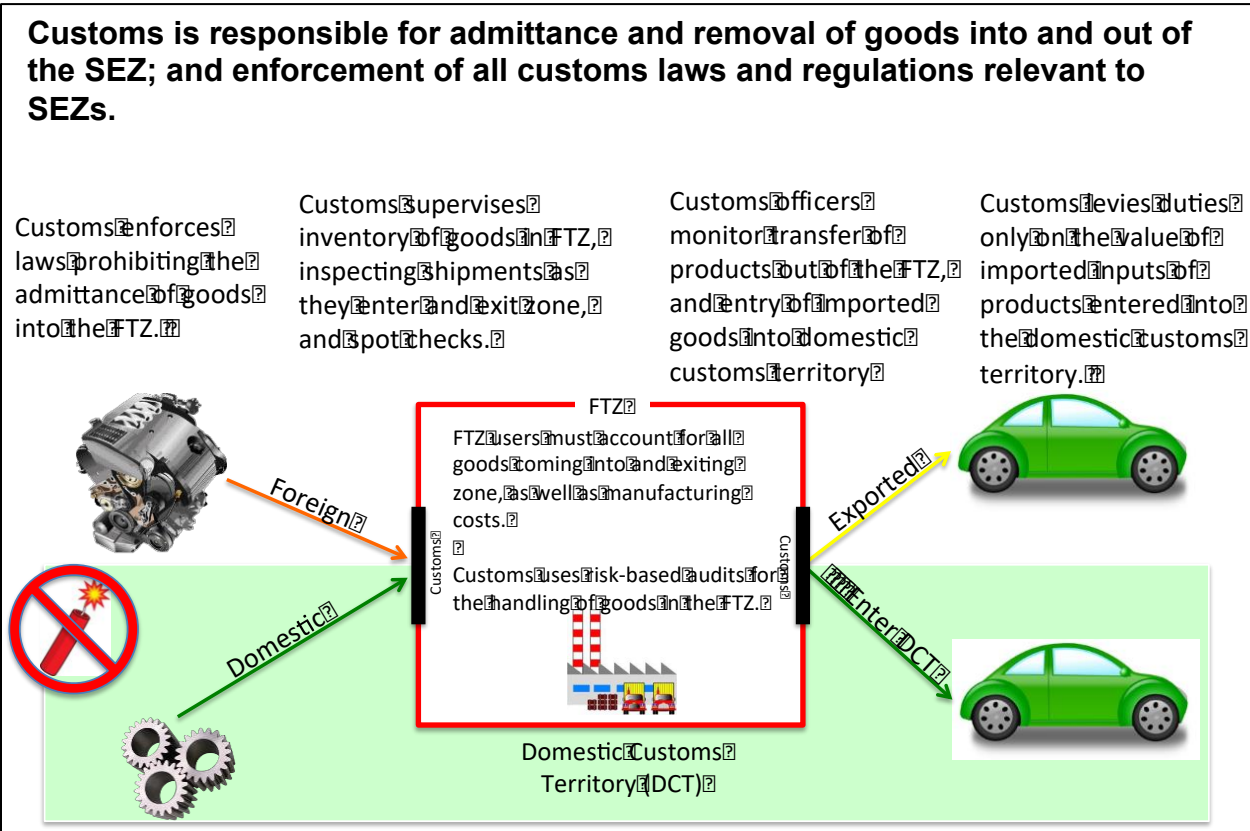


Figure A1 – 10: Customs supervision in U.S. foreign trade zones.

how the process works.

When goods are sent into the customs territory, they are subject to all the laws that pertain to that good and to imported merchandise. The enterprise pays the duty on the items only when the item enters the U.S. customs territory. This works in the following way in these cases:

- **Case 1: No change in imported item.** A company imports a foreign item into an FTZ to be warehoused for a month. No duty is charged upon importation to the zone. The company then distributes the item to the U.S. market. If there has been no manipulation or manufacturing that changes the tariff classification, then the duty on the item is paid by the enterprise at the time it enters the domestic customs territory.
- **Case 2: Imported item is manipulated or manufactured into one final product in zone.**⁶⁸ A U.S.-based automobile manufacturer imports engines from Japan, and sources the rest of the components from the U.S. No duties are paid on the engines when they are imported to the FTZ. When the final car is exported, no duties are owed. However, when the final car is sold into the domestic market then duty is paid on the value of the imported input at the time the car enters the customs territory. In cases where the imported input might be subject to a higher tariff value than the final product (inverted tariff), the manufacturer can choose to have the lower of the two tariffs applied. Such tariff, however, is only applied to the value of the imported content of the final good.
- **Case 3: Imported item is manipulated or manufactured into two or more final products in zone.** A company imports a raw material such as crude oil and manipulates it into two or more separate products, such as jet fuel and gasoline. The raw material is not dutied when imported into the FTZ. If the final products are sold to the domestic customs territory, then duties are distributed according to the relative value of imported material at the time of separation. In the case of petroleum products, the “time of separation” is the whole manufacturing process. The inventory control method used to account for raw materials and separation of feedstock must be approved the Secretary of the Treasury.
- **Case 4: Manufacturing process produces waste.** A company imports a raw material into the zone. No duty is paid on the material at the time of importation to the FTZ. Through shaping, welding, grinding, etc., a portion of the imported material is lost or wasted. The FTZ program makes provisions for recoverable and irrecoverable waste. In its application to the FTZ Board, and through its inventory control, the manufacturer must indicate and demonstrate which wastes, if any, are irrecoverable. If waste is recoverable, then duty must be paid on it if it is brought into the customs territory. It is taxable on its condition, quantity, and weight at the time of entry.
- **Case 5: Use of goods whose duty has already been paid.** A company manufactures a good inside an FTZ using imported inputs supplied by a distributor in the customs territory who has already paid duties on the item. The enterprise can then re-enter

⁶⁸ In cases of production or changes in a tariff classification of imported merchandise, a company located in a USFTZ must receive approval from the Foreign-Trade Zone Board.

the items into the customs territory whether they have been transformed into a final product or not, without paying duty on them.

- **Case 6: Entering goods into FTZ for Purpose of Exporting.** A company enters goods into an FTZ for the sole purpose of exportation, destruction, or storage. Those goods are considered “exported” for the purpose of drawback, warehousing, and bonding, and for other purposes of federal law, and the items cannot be returned to the customs territory.
- **Case 7: Exporting products to NAFTA countries.** A company imports a foreign component to an FTZ, combines it with domestic materials, and produces a final product. It does not pay duty on the imported input at the time of entry into the zone. The company wants to sell the final product into Canada. If the final product is subject to NAFTA drawback then duty must be paid on the item at the time of exportation. The enterprise can pay the lesser of: 1) duty owed to the U.S.; of 2) duty owed to the NAFTA country.
- **Case 8: Importing production equipment into zone.** A company wants to utilize imported machinery in its production process inside an FTZ. The machinery is not subject to duty until it is completely installed, assembled, tested, and used in production, and it must be declared to Customs as production equipment. Duty is owed on the machinery and parts at the time they go into production service. The USFTZ program differs from many other SEZ regimes around the world, which never require duties on imported capital equipment.

Customs Supervision in FTZs

The heart of the USFTZ duty-free system revolves around Customs, and the associated procedures and rules that allow this to function efficiently and prevent smuggling to the customs territory. U.S. Customs and Border Protection handles day-to-day monitoring of FTZ activities. Customs is consulted on every zone and zone activity. Merchandise in the zone is under Customs control and subject to spot checks at any time.

CBP laws are usually not applicable in FTZs. However, they are applicable to merchandise passing through the Customs Territory before admission to an FTZ or after transfer from a zone. Imported merchandise that is transported to and from an FTZ through the Customs Territory must be transported in-bond. Domestic goods transported to and from a zone do not require in-bond transport. CBP laws are also applicable to vessels and aircraft entering or leaving an FTZ.

All zone admission documentation must be presented to Customs within a port of entry, even if the FTZ is outside the port. Such documentation can be submitted electronically. If imported merchandise must be physically examined, it is usually done at the port of entry before admission to a zone. Customs can also choose to examine merchandise within a zone at any time it chooses. Customs supervision may include any of the following:

- Audit of zone user or zone operator’s records;
- Compliance reviews of selected transactions or procedures;

- Reviews of recordkeeping, security, or storage conditions;
- Physical inspection/quantity counts of merchandise in zone operator or zone user's inventory;
- Provide personnel to guard merchandise in a zone, when necessary.

Zone operators are responsible for all merchandise entered into FTZs, and CBP conducts a background investigation of a zone operator. Operators must maintain a bond, the value of which is based on Customs duties and fees owed on the average value of foreign merchandise held in the zone. Operators are also required to submit their Operator's Procedures Manual to Customs, which details their inventory control and recordkeeping system. The system must be capable of the following:

1. Accounting for all merchandise—foreign and domestic—deposited, admitted, granted zone status, stored, exhibited, manipulated, manufactured, destroyed, transferred, and/or removed from the zone;
2. Produce accurate and timely reports;
3. Identify overages and shortages of merchandise in detail, including quantity, description, tariff classification, zone status, and value;
4. Provide all necessary information for merchandise to enter the customs territory;
5. Provide audit trail for CBP.

Operators may authorize a zone user to maintain its own individual inventory control and recordkeeping system, but it is the zone operator who remains liable for complying with inventory and recordkeeping regulations in the FTZ.

Annex 2: Photographic Tour of the Caymanas Special Economic Zone Site and Surrounding Context

The site designated for the Caymanas Special Economic Zone (CSEZ) is situated approximately 7.5 miles (12 km) northwest of downtown Kingston, 5 miles (8 km) east of Spanish Town, and 5.5 to 8 miles (9 to 13 km) from Kingston Container Terminal (KCT).⁶⁹ This annex provides an overview of the CSEZ site, and the surrounding context.

A2.1. Caymanas Special Economic Zone Site in Context

The site proposed for the CSEZ is outlined in red in the map, below. It consists of a 200-acre (80.94 hectares) site north of Mandela Highway, and an approximately 1,200-acre (485.62 hectares) site south of Mandela Highway. The CSEZ site is situated within the larger Caymanas Estates development, which is owned by the Urban Development Corporation (UDC).

⁶⁹ Distances reflect the most direct route by road.

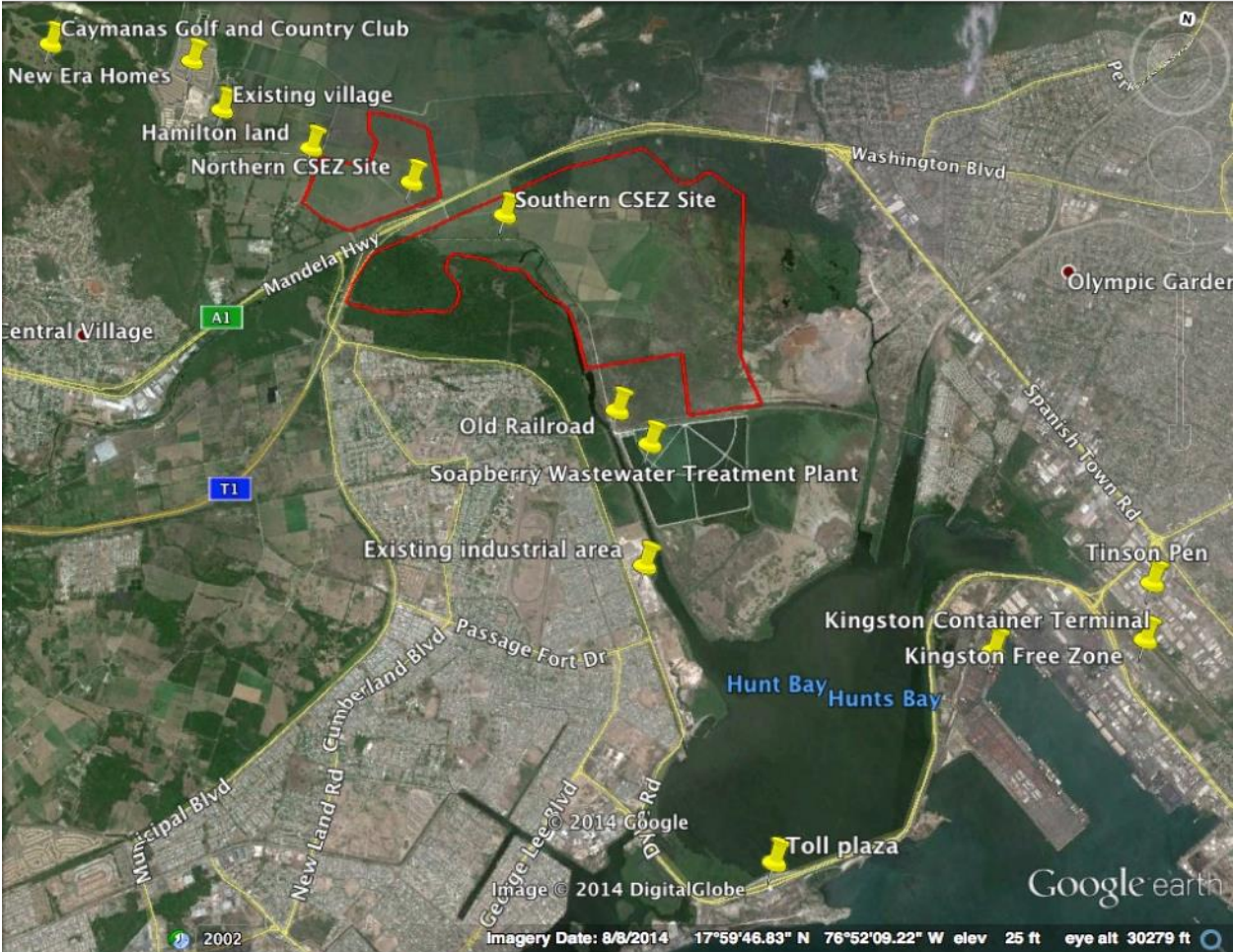


Figure A2 – 1. Overview of the Caymanas SEZ Site and Surrounding Context

The yellow “pins” on the map, below, correspond to photographs described in this annex. Directional coordinates are provided for each photograph.

Caymanas Golf and Country Club

(18.025834, -76.921443). The Country Club lies northwest of the CSEZ site on a hillside overlooking the entire 10,000-acre (4,046.86-ha) Caymanas Estates development area. The golf course is currently managed by UDC at a loss, and there are plans to privatize it. The wooded hillsides ringing the golf course, shown in the photograph, at left, is slated for high-end villa housing.



Figure A2 – 2. Caymanas Golf and Country Club

Existing Village

(18.020726, -76.909001) A small village is located just east of the Caymanas Golf and Country Club. The area is slated for development into a new residential neighborhoods, and the existing population and structures in the village must be incorporated into the new development.



Figure A2 – 3. Existing Village (1)



Figure A2 – 4. Existing Village (2)



Figure A2 – 5. Existing Village (3)--St. Andrew Mission Anglican Church



Figure A2 – 6. New Era Homes



Figure A2 – 7. North-South Highway 2000 Construction

(18.018706, -76.908582). In addition to houses and commercial buildings, there are several structures of historical and religious significance in the existing village area of Caymanas Estates. UDC is working on plans on how to incorporate these into the new urban area.

New Era Homes

(18.023081, -76.911350) The Caymanas Country Club Estates is a new planned residential community developed by New Era Homes 2000 Ltd., a private residential development firm, on lands acquired from UDC. This is an example of a public-private partnership in which UDC facilitated development by a private sector company. The residential area is adjacent to the existing village, depicted in the three previous pictures. The community features 684 two and three-bedroom homes ranging in size from 910 to 1,235 square feet. The neighborhoods will include perimeter fencing, gated security, Sports Park and recreational areas, and adjacent shopping complex.

Highway 2000 Construction

(18.024105, -76.915518) A new highway is under construction that will link the Caymanas Estates area to

the north coast of Jamaica. China Harbour is constructing the road under concession from the government of Jamaica. The North-South Highway will join the Mandela Highway at an interchange just west of the proposed CSEZ site.



Figure A2 – 8. Digicel Station

Digicel Station

(18.017451, -76.908034) Digicel operates a satellite-earth station within the Caymanas Estates area. The station is located approximately 70 meters south of St. Andrew’s Mission Anglican Church at an intersection of Caymanas Estates Road and a minor east-west road. The Digicel station sits nine feet above ground level to protect from the flooding to which the area is prone.



Photo A2 – 9. Hamilton Land

Hamilton Land

(18.018412, -76.899017) The land bordering the west of the CSEZ North Site is owned by Mr. Alexander Hamilton, not UDC. The land is currently used as pasture for horses, but is included in UDC’s Caymanas Estates Development Plan (CEDP) as a future residential area.



Figure A2 – 10. CSEZ North Site

CSEZ North Site

(18.016534, -76.888406) Two hundred acres (80.84 hectares) of the proposed CSEZ is located north of Mandela Highway. It is owned by UDC and zoned for “Industrial” uses within the CEDP. UDC has committed the CSEZ North Site to Factories

Corporation of Jamaica (FCJ) for use as an economic zone, though no sale or formal transaction has taken place. At present, the site is commercially planted with sugarcane.



Figure A2 – 11. CSEZ South Site

CSEZ South Site

(18.014274, -76.879398) A portion of the land allocated for the CSEZ lies south of the Mandela Highway. The South Site is 1,200 acres (485.62 hectares), and is wholly owned by UDC. The site is bordered on the south by the Soapberry Wastewater Treatment Plant, and bordered on the west by the Rio Cobre. The majority of the site is commercially planted in sugarcane.



Figure A2 – 12. Old Railroad

Old Railroad

(17.999700, -76.870531) The old Jamaica Railway Corporation (JRC) line runs along the south side of the CSEZ South Site, adjacent to the Soapberry Wastewater Treatment plant. The line once connected Kingston to Spanish Town, Montego Bay, and Port Antonio. JRC ceased commercial operation on the line in 1992. The standard gauge (1,435 mm) track and supporting infrastructure have fallen into disrepair.



Figure A2 – 13. Soapberry Wastewater Treatment Plant (1)



Figure A2 – 14. Soapberry Wastewater Treatment Plant (2)



Figure A2 – 15. Dyke Road (1)

Soapberry Wastewater Treatment Plant

(17.999700, -76.869455) The Soapberry Wastewater Treatment Plant borders the CSEZ South Site to the south. It sits approximately 1.6 miles (2.5 km) south of Mandela Highway. The Riverton City Dump sits just east of the plant. The main sewerage line enters Soapberry from the east coming from Kingston. Land for future expansion modules lies to the north and east of the existing plant.

The Soapberry wastewater treatment ponds, with the KCT gantry cranes in the distance. Soapberry is designed to treat domestic, not industrial, waste.

Dyke Road

(18.003498, -76.893633) Dyke Road is a two-lane single carriageway (undivided highway) that runs roughly along the southwest boundary of the CSEZ South Site. As its name suggests, the road runs along the top of a Dyke, which protects neighborhoods to the west in Portmore from the flooding Rio Cobre. The road was recently rehabilitated and is covered in smooth tarmac in very good condition.



Figure A2 – 16. Dyke Road (2)

The most direct route from the CSEZ site to KCT is to take Mandela Highway to Dyke Road via the T1 Highway exit. The Dyke Road connects to the Port Kingston Causeway toll road, which leads to the port. The current distance by road is approximately 13 km.



Figure A2 – 17. Existing Industrial Area (1)

Existing Industrial Area

(17.989167, -76.866685) A strip of land west of the Soapberry Wastewater Treatment Plant and Rio Cobre contains several industrial businesses producing concrete products. This industrial area could be acquired as part of the CSEZ, if necessary.



Figure A2 – 18. Existing Industrial Area (2)



Figure A2 – 19. Toll Plaza at entrance to Port Kingston Causeway

Toll Plaza

(17.968005, -76.852593) The drive from the CSEZ site to the KCT passes through a toll plaza along the Port Kingston Causeway.



Figure A2 – 20. Hunts Bay

Hunts Bay

(17.979513, -76.843461) Hunts Bay lies between the CSEZ site and KCT. A fishing community lives and works along the bay in the area where Dyke Road intersects Port Kingston Causeway.



Figure A2 – 21. Land Adjacent to KCT West Berth

Land Adjacent to KCT West Berth

(17.986779, -76.846285) Between the Port Kingston Causeway and West Berth of KCT lies a 66-acre (26.71-ha) strip of land. The land is owned by the Port Authority, and currently used to store damaged port equipment. The land would require additional compacting before it could be built upon for industrial or logistics use. This strip of land has not been included in the KCT privatization concession.



Figure A2 – 22. Kingston Container Terminal

Kingston Container Terminal(17.988094, -76.833474)

The KCT is served by a single entrance off the Port Kingston Causeway. The entrance is approximately 5.5 miles (9 km) to 8 miles (13 km) by road from the CSEZ site. KCT is owned by the Port Authority of Jamaica, which is currently in the process of negotiating a concession for a private port operator.



Figure A2 – 23. Kingston Free Zone

Kingston Free Zone

(17.991446, -76.835023) The Kingston Free Zone is located on 13.5 acres (5.46 ha) of land adjacent to KCT. In 2006, 16.16 acres (6.72 ha) of the zone were ceded to the port for expansion of the container yard. The zone leases pre-fabricated warehouse/factory buildings and has reached 98 percent occupancy. All tenant leases expire on December 31, 2015 because of uncertainty of the future of the zone given the port concession and potential plans for the Logistics Hub Initiative. The zone ownership jointly owned by the Port Authority (72 percent) and government of Jamaica (28 percent).



Figure A2 – 24. Tinson Pen Aerodrome and Surroundings

Tinson Pen Aerodrome and Surroundings

(17.991092, -76.826891) The Tinson Pen Aerodrome (airport sign: KTP) is located on 99 acres of land across Marcus Garvey Drive from KCT.



Figure A2 – 25. Tinson Pen Airstrip

The airport consists of a 4,300 x 100-foot (1,311 x 30-meter) runway. The aerodrome is situated 16 feet (5 meters) above sea level. There are currently no scheduled services to the airport, but the facility is used for private planes. The area directly behind Tinson Pen Aerodrome, shown in Figures 23 and 24, consists of brownfield developments—predominantly warehouses. There is a possibility of redeveloping the Tinson Pen and adjacent areas as part of the Jamaica Logistics Hub Initiative.

A2.2. Caymanas Special Economic Zone On-Site Details

The CSEZ site is shown in detail in Figure 24, below, and outlined in red. It lies within the Caymanas Estates development, which is wholly owned by UDC. The site is designated for industrial use in UDC’s land use plan. The site is bisected by Mandela Highway.



Figure A2 – 26. Map of CSEZ Site in Detail



Figure A2 – 27. North Site Northwestern Boundary

CSEZ North Site Northwestern Boundary

(18.018623, -76.894740) The CSEZ North Site is bounded by Mandela Highway on the south, and farmland access roads on its eastern, western, and northwestern borders. The North site has been committed to FCJ, though no sale or formal transaction has taken place with UDC. The North site is 245 acres (99.15 hectares). The reserved road shown in the photograph, at left, is 40 feet (12.19 meters) wide.



Figure A2 – 28. North Site Eastern Boundary

CSEZ North Site Eastern Boundary

(18.016870, -76.888238) The North Site land is flat, and is almost entirely commercially planted in sugarcane. The reserved road shown in the photograph, at left, is 40 feet (12.19 meters) wide.



Figure A2 – 29. Hamilton Land Adjacent to North Site

Hamilton Land

(18.0178, -76.890592) Alexander Hamilton owns the parcel of land that borders the west side of the CSEZ North Site. The land is currently used as pasture, but is included in UDC's land use plan for future residential area. If the CSEZ North Site is developed for industrial uses, consideration should be given developing some separation such as a green barrier between the CSEZ and nearby planned residential areas.



Figure A2 – 30. View toward Mandela Highway Overpass

Mandela Highway Overpass

(18.017843, -76.899451) The overpass connecting Mandela Highway to Highway T1 is located at the southwestern corner of the CSEZ North Site (seen in the distance in the photograph at the right). The North-South Highway will connect to Mandela Highway near this junction. (The exact location of the new intersection is yet to be determined.)



Figure A2 – 31. Mandela Highway

Mandela Highway

(18.022521, -76.878455) Mandela Highway connects the CSEZ site to Kingston via Washington Blvd. and Spanish Town Road, and to Spanish Town via Main Road. The road is a four-lane dual carriageway (divided highway) “main road” with wide shoulders. The National Works Agency (NWA) has plans to widen Mandela highway to six lanes. Designs and financing are already in place, and construction will occur in 2015.



Figure A2 – 32. View of Mandela Highway from CSEZ South Site

View of Mandela Highway from CSEZ South Site

(18.015098, -76.887882) Electrical wires pass through the CSEZ site aboveground along Mandela Highway. The photograph, at left, shows Mandela Highway as viewed



Figure A2 – 33. Entrance to CSEZ South Site

north from the CSEZ South Site. The road is asphalt with a concrete divider between lanes.

Entrance to CSEZ South Site

(18.015553, -76.887586) The photograph, at left, shows the current access road off Mandela Highway onto the CSEZ South Site. This northern section of the South Site is commercially planted in sugar cane. The South Site is wholly owned by UDC.



Figure A2 – 34. Berm Road

Berm Road

(18.014036, -76.880419) A berm road runs along the southwestern portion of the CSEZ South Site, from the entrance at Mandela Highway in the north to the Soapberry Wastewater Treatment Plant in the south. The gravel road runs along a dyke that is elevated approximately 10 to 15 feet higher than the surrounding lands. The berm acts as a barrier from potential floodwaters of the Rio Cobre, which forms the western boundary of the CSEZ South Site.



Figure A2 – 35. Oxbow Lake

Oxbow Lake

(18.013415, -76.879002) An oxbow lake, formed by a former channel of the Rio Cobre, sits just adjacent to the berm road. The portion of the CSEZ South Site that lies to the west of the berm road might not be suitable for development, given that it serves as a flood plain for the Rio Cobre and contains permanent standing water such as this oxbow lake. The Rio Cobre runs along the tree line in the distance, shown in the photograph at left.

View Toward Mandela Highway



Figure A2 – 33. View across South Site toward Mandela Highway

(18.009807, -76.874731) The photograph, at left, provides a view across the CSEZ South site, looking northeast toward Mandela Highway in the direction of Ferry. Power lines transverse the site. This portion of the South Site is commercially planted in sugarcane. A planned airstrip project for this piece of land has been cancelled. The South Site has potentially more drainage problems than the North Site due to flooding from the Fresh River.



Figure A2 – 34. Illegal sand mining

Illegal Sand Mining

(18.006022, -76.872295) The southern portion of the South Site is currently not utilized for agriculture. Rather, the site consists of dense shrubbery, and is pocketed with craters and piles of soil due to illegal sand mining. The condition and stability of the soil is presently unknown.



Figure A2 – 35. Telecommunications tower

Telecommunications Tower

(18.013629, -76.888904) The telecommunications tower, shown in the photograph at left, is one of the structures situated within the South Site. The site also contains several original cane plantation structures, which are potentially inhabited from time to time. The site contains no formal permanent inhabitants, however.



Figure A2 – 36. Old railroad

Old Railroad

(18.000056, -76.888904) The old JRC rail bed runs along a portion of the southern boundary of the CSEZ South Site, just north of the Soapberry Wastewater Treatment Plant.



Figure A2 – 37. Soapberry Wastewater Treatment Plant

Soapberry Waste Water Treatment Plant

(17.999770, -76.869374) The Soapberry Wastewater Treatment Plant and its two expansion areas form a portion of the southern boundary of the CSEZ South Site.



Figure A2 – 38. Soapberry expansion area

Soapberry Expansion Area

(18.000505, -76.870190) The Soapberry Wastewater Treatment Plant has two future expansion areas—one located to the east of the current facility, and the other located just north of the facility, bordering the berm road (shown in the photograph, at left.)

Annex 3: Terms of Reference—CSEZ Feasibility Study

The following Terms of Reference was drafted for the Caymanas Special Economic Zone (CSEZ) Feasibility Study. It was presented for comment to the Ministry of Industry, Investment, and Commerce and the CSEZ Enterprise Team in November 2014. The World Bank's Foundations for Competitiveness and Growth Project in Jamaica has agreed to provide funding for a feasibility study that utilizes the following terms of reference.

Terms of Reference

Feasibility Study for the Caymanas Special Economic Zone, Jamaica

I. Background

Logistics Hub Initiative. Jamaica faces a stagnated economy, which has experienced consistently low growth rates over the past 40 years. Real GDP growth has averaged 1.1 percent per annum since 1970. The country's debt servicing alone consumes approximately 40 percent of the country's annual budget. In order to reverse the economic stagnation, the government of Jamaica (GoJ) is developing a "Global Logistics Hub Initiative" (GLHI), a strategy for private sector-led growth, under which Jamaica will capitalize on its potential to become a transshipment and logistics hub. This initiative is spearheaded by the Ministry of Industry, Investment, and Commerce (MIIC), and involves development or expansion of several key infrastructure assets, including the port, airport, and ground transportation sectors. It also includes development of several special economic zones (SEZs), as a focus for private investment in the logistics industry and other economic sectors in Jamaica. Preparations are currently underway for a market analysis and master plan for the establishment of the Logistics Hub.

New SEZ Regime. The GoJ is in the process of creating an SEZ regime as a critical component of the Logistics Hub Initiative in an effort to attract FDI, attract new technologies, and encourage manufacturers to engage in value-added activities to goods transshipped through Jamaica. To this end, GoJ has established a Policy Steering Committee and reactivated the Free Zone Council. A legal and regulatory regime for SEZs in Jamaica is currently being developed. To date, MIIC has drafted a comprehensive policy for development of SEZs under the Jamaica Logistics Hub Initiative. This will be followed by the drafting of an SEZ law and regulations throughout 2015.

Caymanas SEZ. The Caymanas SEZ (CSEZ) in the parish of St. Catherine will be one of the first-mover projects under the new SEZ regime. The proposed SEZ will be located on approximately 1,400 acres (566.56 hectares) of land owned by the Urban Development Corporation (UDC), a government-owned entity that reports to the Office of the Prime Minister. The Factories Corporation of Jamaica (FCJ) has an option to purchase 200 acres (80.94 hectares) of the proposed CSEZ site. The proposed SEZ is situated as part of the

10,704-acre (4,331.76-ha) Caymanas Estates Development Area (CEDA) by UDC, which includes the Caymanas Golf and Country Club, newly built housing communities (New Era Homes), and other planned commercial and retail areas.

PPP Policy. Many of Logistics Hub Initiative developments will be implemented under Jamaica's new Public-Private Partnership (PPP) policy, and the Caymanas SEZ will be a first-mover project under this new policy. The PPP and Privatization Unit of the Development Bank of Jamaica (DBJ) coordinates the PPP program. The contractual structure under which developers will be engaged for the Caymanas SEZ will be influenced by the financial analysis of the feasibility study for the zone.

Potential Synergies. There exist several other important potential developments that could cause important synergies and/or competition with the Caymanas SEZ. The Kingston Container Terminal (KCT) represents one such synergy that could be leveraged. There are nascent plans by the Port Authority of Jamaica to develop the area adjacent to the KCT as a cargo logistics zone. The China Harbour Engineering Company (CHEC) has commenced a technical feasibility study for development of a port and industrial zones in the Portland Bight Protected Area. Finally, the government of Jamaica intends to develop the Naggo Head Technology Park in nearby Portmore.

Transshipment Potential. The success of the CSEZ will partly hinge on the ability of Jamaica to transform itself into a regional transshipment hub. The GoJ is hopeful that the expansion of the Panama Canal—expected to be complete in 2016—will increase the potential for the country to attract transshipment, logistics, and value-added assembly business. Whether or not Jamaica can be a beneficiary of the Canal expansion hinges on numerous factors, including increased trend of shipping lines to use the Suez Canal for shipments bound from Asia to the US East Coast, ageing port infrastructure in the Kingston Container Terminal, depth of the harbor to accommodate larger vessels, and competition from other regional ports vying for post-Panama transshipment business, including Cartagena (Colombia), Colón (Panama), Limón Moín (Costa Rica), Port of Spain (Trinidad and Tobago), Mariel (Cuba), Caucedo (Dominican Republic), Freeport (Bahamas), and others.

Flooding Risks. There is a major risk of flooding within the Caymanas Estates development, including the specific site identified for the CSEZ. The general area involves two main drainage paths: 1) Fresh River or Ferry River drainage path—main drainage channel from the Caymanas Estate Development; and 2) Salt River or Duhaney River Drainage Path—main drainage channel for South West St. Andrew areas. The Fresh River converges with the Duhaney River, which empties into the Hunts Bay. Specifically flooding occurs in the region of the Mandela Highway/Fresh River crossing, regions south of the highway, and areas contiguous to the Salt River / Duhaney River discharge. The regulating agencies have indicated that the following must be addressed prior to approval for full-scale development of the Caymanas Estates area, including the CSEZ: 1) Fresh River channel dredging; 2) Mandela Highway crossing improvements; 3) Duhaney River channel dredging; and 4) limiting development in wetland areas.

The GoJ intends to apply a portion of resources obtained from the World Bank's Foundations for Competitiveness and Growth Project to conduct a feasibility study for the establishment of the CSEZ.

II. Objective

The main objective of this project is to prepare a comprehensive feasibility study for the CSEZ in Jamaica that considers the best uses (industrial, ICT, transshipment, commercial, worker housing, etc.) and development phasing of the 1,400-acre (566.56-hectare) CSEZ site, in a manner that is financially feasible for a private developer, PPP, or other arrangement. The zone will operate under the rubric of Jamaica's SEZ and PPP policies, and the feasibility study analyses and recommendations should reflect that. The study should also draw upon best practices in the Caribbean and those linked to transshipment hubs globally, as well as consider the particular circumstances that affect private investors in Jamaica. The investigation, analyses, and recommendations of the study shall include all matters discussed in Tasks 1 through 11.

III. Statement of Work

It is anticipated that a consulting firm, hereafter referred to as "Consultant", will be hired to undertake this project in full.

The Consultant shall prepare a feasibility study for the Caymanas Special Economic Zone (CSEZ) that addresses each of the 11 tasks described in this Statement of Work. The Consultant shall make clear which personnel it is assigning to each task, as well as the specific activities and expected duration of each task.

When undertaking the feasibility study, the Consultant shall give serious consideration to environmental management and sustainability of the CSEZ development area. The Consultant shall also remain cognizant of the following important factors, and their associated potential impacts on the CSEZ:

- The SEZ Policy, and SEZ legal framework currently being drafted;
- The PPP Policy;
- The Feasibility Study and Master Plan for the countrywide Logistics Hub Initiative, currently underway;
- The Caymanas Estates Development Plan (CEDP) for the 10,704-acre (566.56-hectare) Caymanas Estates Development Area prepared by UDC, of which the CSEZ is one portion;
- Sea port and airport expansions and upgrades at the Kingston Cargo Terminal, Kingston Wharves, and Norman Manley International Airport, including any industrial zones planned adjacent to port facilities;
- Plans by China Harbour Engineering Company to develop a port and associated industrial zones in close proximity;
- Plans by FCJ to develop the Naggo Head Technology park in nearby Portmore;

- Studies and plans by Jamaica Private Power Company to build a captive power plant on land designated for the CSEZ;
- Plans by other countries in the Caribbean basin to position themselves as transshipment hubs, and the SEZ frameworks in place in those countries;
- The need for sustainable and “green” infrastructure, in keeping with current global trends;
- Storm water solutions for Caymanas Estates Development Area previously proposed by the National Works Agency and associated consultants.

A Data Room will be set up, where bidding firms can access studies and documents of relevance to the CSEZ Feasibility Study.

Upon completion of Tasks 1 through 7, the Consultant shall provide a mid-study oral presentation and written report to the Enterprise Team and other relevant stakeholders (including MIIC, UDC), and others). Individual task deliverables, as described below, shall each constitute a separate chapter of the written report. Upon completion of Tasks 8 through 11, the Consultant shall provide the following deliverables: a) a written draft report submitted to the Enterprise Team covering Tasks 8 through 11 in which individual task deliverable constitute a separate chapter of the report; b) an oral presentation given to relevant stakeholders on the key findings of the feasibility study; c) a final report encompassing Tasks 1 through 11, based on comments received from the Enterprise Team and other stakeholders such as MIIC, UDC, and others; and d) an Executive Summary of the entire feasibility study.

It is anticipated that Tasks 1 through 7 of the study should be implemented within a period of four months, and Tasks 8 through 11 should be implemented within an additional period of six months. Consultants are invited to provide more detailed time estimates in their proposals.

TASK 1: Vision for the CSEZ

The Consultant shall conduct meetings with the Enterprise Team, MIIC, UDC, and other relevant stakeholders agree upon a common vision for the CSEZ, upon which the feasibility study will be based. This vision will serve as a starting point for the study. The role of the Consultant throughout the study shall be to determine if this vision is feasible, and if not, to provide suggestions on what could be feasible for the CSEZ.

Task 1 Deliverable: A statement on the vision for the CSEZ, as agreed upon with the Enterprise Team, and an agreed upon schedule of interim briefings to core stakeholders throughout Part I of the project.

TASK 2: Site Assessment

The Consultant shall conduct a detailed site assessment of the designated 1,400-acre (566.56-hectare) site for the CSEZ. The assessment shall examine the following:

1. Relevant planning laws, policies, and development plans, and the manner in which the CSEZ fits within the overall Logistics Hub Initiative Master Plan;
2. Surrounding context of the site (off-site developments, topography, fenceline communities, proximity to social and civil defense infrastructure, etc.), including how the CSEZ fits into the overall Caymanas Estates area land use plan, and any potential conflicts with such;
3. Physical characteristics of the site (topography, soil quality, wetlands, streams, climate, existing land uses, seismic activity, locations of cultural, historical, or religious significance, etc.);
4. Presence of off- and on-site utilities (power, water, sewerage, telecommunications);
5. Access and distance to transportation infrastructure, particularly that which connects the CSEZ to the Kingston Container Terminal and Norman Manley International Airport, as well as to the proposed Vernamfield and Goat Island developments;
6. Initial environmental and social survey to: a) examine the environmental context of the CSEZ; b) highlight possible environmental contaminants (noise, air, water, soil, marine); c) investigate drainage and tropical storm surge; d) explore need for population resettlement arising from CSEZ construction or expansion of off-site infrastructure.

Task 2 Deliverable: A site assessment that highlights the characteristics, opportunities, and constraints of the CSEZ site, and identifies potential fatal flaws. The report should include site overview map(s).

TASK 3: Drainage Study of Caymanas Estates Development Area

The CSEZ lies within the larger Caymanas Estates Development Area, which has numerous flood and drainage risks. The natural drainage pattern for storm water is towards Moses Lake and to the Fresh River to Hunt's Bay. Areas of the lowlands in the Caymanas Estates north of Mandela Highway drain north, away from Mandela Highway. The minor and major drainage systems were planned and designed to generally conform to natural drainage patterns and discharge to natural drainage paths in the catchment. These natural drainage paths will be modified as required to accept the higher peak flows resulting from the development blocks. The run-off must be discharged from a development in a manner that will not cause adverse impacts on downstream properties or storm water systems.

Two critical design considerations that were factored into the drainage design included:

- a) Cut off drain at the base of the Highlands and west of the Lowland development. This drain will protect the lowland development areas from any run-off from the hills west of the plains and leads it to the area south of the Moses Lake berm and from there to the Fresh River.

b) Reservoir Consideration for 100-year Average Recurrence Interval (ARI). In the case of a 100-year ARI, the Moses Lake is expected to overtop its berm in some areas to 3 meters above mean sea level. The establishment of the lowland northern road at 3.5 meters above mean sea level was deliberate as it will form a barrier protecting the developable area during the impact of the 100-year ARI. These, however, may be further affected by climate change projections.

The Consultant shall provide the overall analysis and design for storm water management for the Caymanas Estates Development (CED) Area, which will impact the common drainage channel serving the Caymanas Estates area and South West St. Andrew areas. The Consultant shall provide complete Hydrology and Hydraulic Analysis as well as preliminary designs including options for designs. The designs for the CED need not be redone, but the Consultant shall raise any issues in the overall analysis that might warrant a reconsideration of the CED land use plan.

The areas under consideration are all those impacting the drainage channels, namely;

- a) Fresh River Channel—The Fresh River Channel will require dredging to remove growth and blockages accumulated over time. This is to ensure the required run-off rate is maintained.
- b) Mandela Highway Crossing—The northern lanes of the Mandela Highway will be required to be upgraded by the raising the roadway and widening of the bridge as was done for the southern lanes design.
- c) Duhaney River Channel—The Duhaney River channel will require dredging to remove growth and blockages accumulated over time. This is to ensure the design run-off rate is maintained and allow for better dispersion of storm water. Consideration will also have to be given for waterway channel widths exiting into Hunts Bay.
- d) Southern Wetland Areas—The inundation model for the 100-year ARI confirms the need to retain the wetlands to mitigate flooding effects. Therefore there is a need to curb activities that reduce wetland areas.

Any storm water system consideration for the area must take into consideration all catchment areas feeding into the main exit channel to the sea. In this regard the inflows to the fresh river from the St. Andrew areas must be factored in to the analysis and designs. The designs shall include for all necessary works to any or all drainage channels to adequately manage storm water flows for 100-year ARI.

The Consultant shall provide the following:

1. Hydrology and hydraulic analysis. The Consultant shall determine the drainage concept for the defined Caymanas Estates Development area, conduct hydrology and hydraulics analyses, and prepare a Catchment Hydrology and Hydraulics Report.
2. Preliminary designs. Preliminary designs shall be adequate to accurately develop budget costs for the design and implementation of the proposed solutions to

include: a) Topographic Survey for drainage channels; b) Geotechnical Studies to facilitate designs; c) Establish waterway design and improvement requirements for Fresh River; d) Verify Mandela Highway Crossing requirements for the Fresh River; and e) Establish waterway design and improvement.

3. Cost estimates. Estimates for the cost of: 1) Preparing detailed construction designs for the recommended designs in #2, above; and 2) Construction and civil works for the drainage mitigation measures.

Task 3 Deliverable: A hydrology and hydraulic analysis of drainage for the Caymanas Estates Development Area, preliminary designs, and estimated costs.

TASK 4: Infrastructure Assessment

The consultant shall evaluate off-site infrastructure networks in the area surrounding the CSEZ site. This shall include roads, power, water, telecommunications, sewerage/waste water treatment, and solid waste disposal infrastructure currently in place. For each of these, the consultant shall conduct a critical assessment of: a) infrastructure requirements of the site⁷⁰; b) existing conditions and ability of current networks to meet infrastructure demands; c) gap analysis, including potential opportunities and constraints; d) recommended infrastructure improvements to best serve the CSEZ; and e) general timeline for undertaking necessary improvements. The recommended infrastructure improvements should be consistent with the types of industrial and other uses the CSEZ will likely have. The Consultant shall investigate the options of installing a captive energy plant on-site in the CSEZ versus the option to upgrade the national grid, and the cost and time implications required.

Task 4 Deliverable: An off-site infrastructure assessment reviewing existing conditions and constraints and identifying required improvements required to serve the CSEZ.

TASK 5: Transportation Assessment

The Consultant shall confer with existing market studies already completed by the government of Jamaica, as well as with the consulting team undertaking the Logistics Hub Initiative Feasibility Study and Master Plan (occurring concurrently with the CSEZ Feasibility Study). The transportation assessment shall include the following:

1. Review of sea and air cargo flows through the Caribbean, and from Europe and Asia to the Western Hemisphere, and ways in which the expansion of the Panama Canal might trigger a shift in cargo shipment patterns in the Western Hemisphere, and Caribbean in particular. This should bear in mind the potential competition from Dominican Republic, Panama, Costa Rica, Colombia, Bahamas, Trinidad and Tobago, Cuba, and others.

⁷⁰ Based on the findings of the Demand Forecast (Task 6).

2. State of air, road, rail, and sea cargo transportation networks in Jamaica, and their connectivity to the CSEZ;
3. State of transportation connectivity between the CSEZ to the main Logistics Hub centers in Jamaica—Kingston Container Terminal, Norman Manley International Airport, and proposed developments at Goat Island and Vernamfield.
4. Recommendations for upgrading the transportation network as it relates to movement of cargo and persons in and out of the CSEZ.

Task 5 Deliverable: A transportation assessment that includes: a) cargo flows and shipment patterns—current and potential new; b) state of Jamaican cargo transportation networks and systems; and c) recommendations for improving transportation networks for the benefit of the CSEZ.

TASK 6: Market Analysis

The Consultant shall assess the market conditions under which companies in the CSEZ operate in order to understand the competitiveness and attractiveness of the CSEZ compared to other regional and global destinations. The Market Analysis will test the Vision of the CSEZ as described in Task 1, and the Consultant shall advise on any variances between the Vision and realities of the market. The Market Analysis should take the following into consideration, and their effects on the market demand for serviced industrial infrastructure in the CSEZ:

- Transportation Assessment in Task 5, including plans of other Caribbean countries to position themselves as transshipment hubs and develop their own SEZs;
- The proposed framework for Jamaica’s SEZs vis-à-vis those of competing countries’ jurisdictions;
- Port and airport expansions and upgrades at the Kingston Cargo Terminal, Kingston Wharves, and Norman Manley International Airport, including any industrial zones planned adjacent to port facilities;
- Plans by China Harbour Engineering Company (CHEC) to develop a port and associated industrial zones;
- Plans by FCJ to develop the Naggo Head Technology Park in nearby Portmore.

The Market Analysis shall include the following, with an eye as to how it will impact the Demand Forecast⁷¹ for the CSEZ.

1. Comparative benchmarking. An investigation of the cost and quality of the following: a) serviced industrial land; b) pre-built warehouse/factory shells; c) power; d) water; e) telecommunications; f) labor; and g) investment incentives. The benchmarking exercise shall evaluate Jamaica and comparator countries such as Dominican Republic, Costa Rica, Panama, Colombia, Bahamas, Cuba, and others recommended by the Consultant and/or Enterprise Team;
2. Industry trends, as highlighted by existing studies and interviews with investors;

⁷¹ The Demand Forecast is contained in Task 7.

3. Specific barriers to doing business in Jamaica, including binding constraints and policy issues to surrounding investment in various sectors;
4. Investment flows and trends—FDI and domestic—including those of comparator countries in the region with SEZs or free zones;
5. Trade flows and trends—including those of comparator countries in the region with SEZs or free zones;
6. Assessment of the availability of labor to work in the proposed CSEZ;
7. Summary highlight of industries most likely to locate in the CSEZ, including the need for supporting uses of the CSEZ such as worker housing, commercial, etc, if recommended;
8. Industry operating parameters for each of the sectors described in #7, above, including land, power (monthly), water (monthly), labor requirements, and preference for lease of land or pre-built facilities.

The Consultant shall confer with existing market studies already completed by the government of Jamaica, as well as with the consulting team undertaking the Logistics Hub Initiative Feasibility Study and Master Plan (occurring concurrently with the CSEZ Feasibility Study). The Consultant shall obtain the necessary data for the Market Analysis through desk research, examination of country statistical data, international data, and public and private sector interviews. It is recommended that the consultant conduct at least [40] private sector interviews as part of this Market Analysis, including sectors deemed likely to locate in the CSEZ—large logistics operators, manufacturers, ICT/BPO, services, etc.

Task 6 Deliverable: A Market Analysis that discusses the competitive position of the CSEZ vis-à-vis comparator locations, identifies industry sectors most likely to locate in the CSEZ based on trade, investment and trend analyses, and provides sector profiles and operating parameters. The Consultant shall describe any variances between the Vision for the CSEZ and market realities.

TASK 7: Demand Forecast

Utilizing the outcome of the Market Analysis, the Consultant shall prepare a demand forecast for the CSEZ. The Demand Forecast should include:

1. The forecasting methodology used by the Consultant;
2. At least two scenarios to capture possible variances in the forecast, including the detailed assumptions made for each scenario. The scenarios should also reflect the expected impact of relevant policy choices;
3. For each scenario in #2, a demand forecast for each of 20 years for the following:
 - a. Number of enterprises in each industry most likely to locate in the CSEZ, highlighted in Task 5;
 - b. Land (square meters) for each industry;
 - c. Pre-built warehouse/factory shells (square meters) for each industry;
 - d. Power (kilowatt hours/month);

- e. Water (cubic meters/month;)
- f. Employment, disaggregated by type: ie. unskilled, skilled, technical, managerial.

Task 7 Deliverable: Twenty-year demand forecasts for at least two scenarios that includes enterprises, land, pre-built facilities, power, water, and employment. The Consultant shall deliver a demand forecast methodology, description of scenarios, written analysis with associated graphs, and data spreadsheets.

TASK 8: Concept Master Plan and Infrastructure Requirements

The Consultant shall develop a concept master plan for the CSEZ, based on the most likely Demand Forecast scenario envisaged in Part I of the study. The Master Plan shall show land plots and road layout designs and identify key land uses. The master plan design will reflect the types of industries most likely to locate in the CSEZ (Task 6) and the number of enterprises expected to locate in the zone over time (Task 7).

The CSEZ design and Master Plan should include sustainable and “green” solutions wherever possible and feasible, and the Consultant shall make specific note of these. This includes, but is not limited to energy efficiency, green building guidelines, efficient uses of water and secondary uses of waste water, etc.

The Master Plan should include the following elements:

1. A value proposition for the CSEZ, based on the Market Analysis and Demand Forecast;
2. Land use plan;
3. Zoning plan that identifies setbacks, height limits, appropriate densities, and open space requirements;
4. A phasing plan detailing how the CSEZ should be developed over time, based on demand;
5. On-site infrastructure concept plans, including: a) roads; b) water; c) power (including the option to generate power on-site); d) sewerage; e) storm water/drainage; f) wastewater and solid waste; g) waste water treatment facility(s); h) street lighting and fencing; and i) and telecommunications. These plans should be line drawings used to cost the project, and are not detailed construction plans.
6. Off-site infrastructure improvements required to support the project. The Consultant should identify the necessary timing of construction of this off-site infrastructure in order for it to not delay the development of the CSEZ.
7. Social infrastructure—whether on-site or off-site—such as health clinic, daycare center, etc. for the benefit of the CSEZ employers and employees;
8. Design guidelines for the CSEZ, including at minimum: a) building orientation on the plot; b) building facades; c) access to the plot; d) servicing requirements; e) landscaping requirements; f) parking and loading requirements; g) signage; and h) public space lighting requirements.

In addition to the above plans, any other on-site concept drawings, cross-sections, or elevations/schematics for key buildings (administrative, operational, customs, etc.) are not required, but are encouraged. The CSEZ's design should be flexible to handle changing market needs over a 20-year timeframe, and created to maximize leasable plots and pre-built facilities and to optimize the plot-to-infrastructure ratio. Road networks and widths should be developed to mitigate transportation problems such as congestion.

The Consultant is also required to estimate the capital costs (+/- 15%) of the following, based on the master plan. The cost estimates should be prepared by development phase.

1. Land acquisition by developer;
2. Site preparation (landfill, earthworks, EIA, etc.);
3. On-site infrastructure, utility networks, and buildings constructed by the developer;
4. Necessary improvements to off-site infrastructure required to render the infrastructure reliable and bring it to the fenceline of the CSEZ, and which entities should bear the financial responsibility for these infrastructure upgrades (utility providers, private or public sector, etc.).

Task 8 Deliverable: The master plan shall include a land use plan, zoning plan, phasing plan, and design guidelines for the CSEZ, and all associated drawings. The Consultant shall also provide an overview of necessary off-site infrastructure and improvements required for successful CSEZ development. A set of on-site infrastructure drawings shall also be included. On-site concept drawings should be produced at a size that can be easily reduced and included in the final report. Task 8 shall also include the cost to develop each phase of the master plan, as described above.

TASK 9: Financial Analysis

The Consultant shall determine the financial feasibility of the CSEZ and recommend the best PPP option for developing the zone. Specifically, the Financial Analysis shall consist of the following:

1. Determination of the costs to develop (CAPEX) and operate (OPEX) the CSEZ, drawing from the infrastructure costs calculated in Task 8 (including the option to generate power on-site) for each development phase;
2. Calculation of revenues to the developer, based on the Demand Forecast (Task 7) and benchmarked lease rates (Task 6), for each development phase;
3. Calculation of costs borne by the GoJ to develop and operate the CSEZ, for each development phase, including infrastructure improvement costs and costs of flooding and drainage mitigation;
4. Calculation of revenues to the GoJ, based on taxes, sale of land, fees, etc, for each development phase;
5. Build a financial model to estimate the internal rate of return (IRR) to the project developer over a 20-year period. The model shall include: a) scenarios that can test the various effects on both developer profitability and IRR, and GoJ costs and

revenues under various development frameworks (long-term lease, BOO, management contract, etc.); b) income statement and cash flow, showing detailed calculations and summary sheets; c) services allocation, allowing various splits of costs between government and developer; d) ability to test the costs and effects of different GoJ contribution options; e) phasing plan, according to different levels of demand; f) revenue share, allowing the ability to test the sharing of revenue between the GoJ and developer; g) ability to test various land lease prices and options; and h) ability to test other relevant variables such as the CAPEX, OPEX, and revenues associated with on-site power generation. The Consultant shall conduct sensitivity testing on the model. The model shall be linked to the Demand Forecast to reflect the same scenarios presented in the forecast;

6. Build an economic model to measure and compare the anticipated costs and benefits to the GoJ over a 20-year period. The model should compare the total expected costs borne by the GoJ to fund the CSEZ (including infrastructure improvements and drainage mitigation measures) against the total expected financial benefits that would accrue to the government (in the form of taxes, license, etc), and measure the economic rate of return (ERR) to the GoJ. The model should be linked to the financial model and the Demand Forecast, and reflect the same scenarios measured by the financial model;
7. Analyze and rank the model output scenarios based on projected IRR to the developer and anticipated contribution by the GoJ;
8. Recommend a scenario that maximizes private developer IRR and minimizes the costs borne to the GoJ;
9. Identify financial risks to the project for the GoJ, and suggest mitigation measures;
10. Prepare a guide on how to use the models for the GoJ;

Task 9 Deliverables: Project CAPEX, OPEX and revenues; financial model and cost-benefit model; model scenarios and outputs, financial recommendations for developing the CSEZ in the most feasible manner; description of financial risks; and guide on how to use the models. The Consultant shall deliver all model spreadsheets and a written report.

TASK 10: Finalize Development Framework

Drawing upon the Financial Analysis in Task 9, the Consultant shall finalize the best development framework for the CSEZ. This includes investigating and recommending the best development options for the CSEZ (long-term lease, BOO, management contracts, etc.), and strategies for locating a developer(s). The recommended public-private arrangement should be demonstrated and reflected in the financial and cost-benefit model outputs.

Task 10 Deliverable: An examination of various types of public-private options for development of the CSEZ, and the Consultant's recommendation of which one the GoJ should pursue. Financial and cost-benefit model outputs that demonstrate the most appropriate public-private development arrangement, and strategies for locating a developer under such arrangement.

TASK 11: Implementation Action Plan

The Consultant shall prepare an Implementation Action Plan for development of the CSEZ. The Implementation Plan should act as a roadmap for implementing the CSEZ project for the GoJ, including conducting an Environmental Impact Assessment⁷², conducting a developer search, upgrading key infrastructure, commencing zone construction, developing SEZ institutions, and other important steps to ensure the success of the zone. The plan should identify the required tasks for each component with associated timeframes and key milestones.

Task 11: Deliverable: A roadmap with key milestones for the implementation of the CSEZ project.

IV. Stakeholder Engagement

The Consultant shall remain engaged with the Enterprise Team throughout Parts I and II of the project, and will agree with core stakeholders on a schedule of interim verbal briefings. The Consultant shall also adhere to the following:

Stakeholder Engagement	Timing
Agree on Common Vision for CSEZ	Task 1, beginning of project
Brief oral updates between Consultant and Enterprise Team	Schedule as agreed upon between Consultant and Enterprise Team.
Oral presentation of Task 1 through 7 results	4 months after project start-up
Oral presentation of key findings and recommendations from feasibility study	After 10 months

V. Schedule of Deliverables

The Consultant shall prepare deliverables according to the following schedule. The Enterprise Team shall provide timely feedback to the Consultant within two weeks of submission of each deliverable.

Deliverables	Timing
Common Vision for CSEZ, which the study will test	Two weeks after start-up
Oral presentation of Task 1 through 7 results	4 months after start-up
Draft report covering Tasks 1 through 7	4 months after start-up
Oral presentation of key findings and recommendations from feasibility study	10 months after start-up
Draft report covering Tasks 8 through 11	10 months after start-up
Executive Summary of report, covering Tasks 1 through 11	10 months after start-up
Master plan drawings, cost estimates, financial models	10 months after start-up

⁷² The National Environmental and Planning Agency (NEPA) shall determine whether an Environmental Impact Assessment or a Strategic Environmental Assessment (SEA) is required for the CSEZ project.

Final feasibility study, covering Tasks 1 through 11, based on feedback from the Enterprise Team, including all maps, drawings, and models	11 months after start-up
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VI. Team Composition

The Consultant shall form a team of experts that includes, at minimum, the following. The Consultant can add other positions as necessary to undertake the terms of reference of the feasibility study. The Consultant shall designate one team member as the Team Leader, who will manage the team and act as the primary liaison between the consulting team and GoJ. The Consultant is encouraged to partner with Jamaican individual consultant(s) and/or firm(s).

- i) Economist (Masters Degree in economics, business, or similar) with at least 10 years relevant experience, particularly in development and/or operation of SEZs;
- ii) Urban Planner (Masters Degree in Urban Planning or related discipline) with at least 10 years relevant experience, particularly in the design of SEZs;
- iii) Transportation Engineer (Master Degree in Transportation Engineering or similar) with at least 10 years relevant experience;
- iv) Hydrology Engineer (Degree in hydrology, civil engineering, or similar) with at least 10 years relevant experience;
- v) Civil/Structural Engineer(s) (Degree in civil engineering) with at least 5 years relevant experience;
- vi) Engineering support staff member(s) such as CAD drafter(s), surveyor(s), etc.
- vii) Financial Expert (Bachelor or Masters Degree in Accounting and/or Finance, or similar) with at least 10 years relevant experience, particularly in analyzing project finance of SEZs or other large public infrastructure projects.

VII. Project Coordination

The Consultant will report directly to the Enterprise Team, which has been charged by the GoJ to move the project to market. The Enterprise Team reports to Cabinet.

The Consultant shall also work closely with the following core stakeholders:

- Ministry of Industry and Commerce (MICC), which guides the Caymanas SEZ project, and under which the SEZ Authority will be formed;
- Urban Development Corporation (UDC), which owns the land at the proposed Caymanas SEZ site;
- Development Bank of Jamaica (DBJ), which manages the PPF (Project Preparation Facility) Management Board under which World Bank funding has been approved for this activity (under the Foundations for Competitiveness and Growth Project).

Finally, the Consultant will also work closely with all other public and private sector stakeholders, as appropriate, in undertaking the work of this project.

Annex 4: Terms of Reference—LHI Industry Analysis and Master Plan

The following Terms of Reference was drafted for the Jamaica Logistics Hub Initiative (LHI) Market Assessment and Master Plan. It was presented for comment to the Ministry of Industry, Investment, and Commerce in December 2014. The LHI Market Analysis and Master Plan will be funded by the World Bank’s Foundations for Competitiveness and Growth Project in Jamaica.

Terms of Reference Jamaica Logistics Hub Initiative Industry Analysis and Master Plan

I. Background

Strategic Location. Jamaica is strategically positioned to benefit from the expansion of the Panama Canal, which is set to double its capacity by 2016. Jamaica is situated along the main shipping lane from the Panama Canal to the Caribbean and North American markets. This allows Jamaica to potentially function as a global logistics hub serving important ports and airports in South America, along the Gulf of Mexico, and East Coast of North America.

Jamaica’s unique location presents the following opportunities:

- Location of group logistics headquarters and major distribution centers for major transnational corporations (TNCs);
- Location of assembly (manufacturing) points for TNCs and their suppliers transporting goods along the major trade corridors within the western hemisphere;
- Provision of logistics services to facilitate efficient processing of increased volumes;
- Development of center(s) of excellence in logistics expertise.

Whether or not Jamaica can be a beneficiary of the Panama Canal expansion hinges on numerous factors, including increased trend of shipping lines to use the Suez Canal for shipments bound from Asia to the US East Coast, ageing port infrastructure in the Kingston Container Terminal, depth of the harbor to accommodate larger vessels, and competition from other regional ports vying for post-Panama transshipment business, including Cartagena (Colombia), Colón (Panama), Limón Moín (Costa Rica), Port of Spain (Trinidad and Tobago), Mariel (Cuba), Caucedo (Dominican Republic), Freeport (Bahamas), and others.

Logistics Hub Initiative. In order to enhance economic growth, the government of Jamaica (GoJ) is developing a “Logistics Hub Initiative” (LHI), a strategy for private sector-

led growth, under which Jamaica will capitalize on its potential to become a transshipment and logistics hub. This initiative is spearheaded by the Ministry of Industry, Investment, and Commerce (MIIC), and involves development or expansion of several key infrastructure assets, including the port, airport, and ground transportation sectors. It also includes development of several special economic zones (SEZs), as a focus for private investment in the logistics industry and other economic sectors in Jamaica.

The scale and scope of the LHI will include—but not be limited to—rehabilitation of existing infrastructure, development of new large-scale infrastructure, industrial estates and SEZs, connecting road, rail, air transportation networks, upgrades of utilities such as power, water, and wastewater treatment, and enhancement of digital communications infrastructure along with associated commercial and residential facilities in Kingston and elsewhere in Jamaica.

PPP Policy. Many of Logistics Hub Initiative developments will be implemented under Jamaica’s new Public-Private Partnership (PPP) policy. The PPP and Privatization Unit of the Development Bank of Jamaica (DBJ) coordinates the PPP program.

Strategic Approach. The GOJ is adopting a multi-pronged approach to implementing the Logistics Hub Initiative. The first strategy involves several billion dollars of private investment in logistics infrastructure and other developments to capitalize on Jamaica’s geostrategic location along the main sea and air trade corridors of the Americas, and Kingston’s deep natural harbor. Leading global firms have already bid on some of the planned projects and other projects are in the pipeline. Secondly, the GOJ is establishing a new special economic zone (SEZ) regime to attract large globally integrated enterprises to benefit from Jamaica’s competitive position in the global logistics chain. Thirdly, the GOJ is facilitating the participation of small and medium-sized firms in export value chains through collaborations with globally integrated enterprises in various industry value chains. Finally, Jamaica also intends to transform itself into an International Financial Services Center to complement the LHI.

The GOJ intends to provide the necessary catalysts to facilitate the growth of value chains necessary to the functioning of a globally competitive logistics hub. This includes enhancements of soft infrastructure such as universities, research institutions, and knowledge-intensive business services. This approach will result in a concentration of interconnected firms that are linked by various complementarities and externalities. These mechanisms will enable firms to operate in an environment that allows them to achieve higher levels of efficiency and global competitiveness.

Market Analysis. For Jamaica to best benefit from a potential global logistics hub, it is necessary to rapidly and comprehensively understand how Jamaica is currently positioned as a location for different industry sectors key to a global logistics hub. A rigorous analysis is required to identify strengths, weaknesses, opportunities, and threats, and ascertain which improvements are required to transform Jamaica into a world-class logistics hub, and maximize a compelling value proposition to global and local investors.

Such findings will help to guide and enrich the development of the Logistics Hub Initiative, and prioritize and optimize supporting programs and improvements.

Master Plan. In order to successfully build a global logistics hub, Jamaica requires a national logistics system development plan. This master plan will incorporate high-level land use planning to identify functional areas and land uses permitted within the designated Logistics Hub and surrounding areas. The configuration, sizing, and development phasing will be based on projected demand. Attention should be placed on locating logistics nodes to facilitate economic synergies and ensure compatibility with surrounding areas and available resources. A national-level spatial plan is required, which addresses issues such as housing and infrastructure provision, and the interface with urban development.

The GoJ intends to apply a portion of resources obtained from the World Bank to conduct a Market Analysis and develop a Master Plan for the establishment of the Logistics Hub.

II. Objectives

Jamaica's Ministry of Industry, Investment and Commerce wishes to engage a world-class consulting firm to prepare a Market Analysis and Master Plan for the establishment of Jamaica as a global logistics hub. The Master Plan must emphasize the development of special economic zones, industrial parks, logistics facilities, sea port, and airport infrastructure development.

The primary objectives of the LHI Industry Analysis and Master Plan are to:

- Analyze recent trends in international trade and foreign direct investment in Jamaica and globally—particularly in countries that could potentially compete with Jamaica in attracting transshipment trade and investment;
- Identify sectors and activities with most potential for the Jamaica Logistics Hub;
- Develop Jamaica Logistics Hub value proposition and marketing messages;
- Act as a developmental roadmap for GOJ ministries, departments, and agencies, so that all are aligned with a single vision and direction that allows a comprehensive strategy for, orderly and coordinated development of the LHI;
- Balance conflicting land use needs, such as industry, commerce, housing, parks, wetlands, forest reserves, recreation, culture, entertainment, transport, security, and community facilities given the constraints of Jamaica's limited land area;
- Consolidate the disparate development plans for key infrastructure such as ports, airports, SEZs, road, rail, power, water, waste water treatment, and telecommunications;
- Inform the integrated resource plan for the provision of utilities such as water, electricity, waste water treatment, and telecommunications;
- Encourage a diverse array of subsequent investment proposals for public and private projects in land, air, and marine infrastructure development, and power, water, waste water treatment, and telecommunications infrastructure;

- Facilitate the development of SEZs catering to enterprises that can warehouse, exhibit, pack, unpack, design, assemble, manufacture, repair, package, label, and transship all kinds of products, raw materials, components, packaging materials, containers and other commercial items for local consumption, exportation or re-exportation.
- Facilitate the development of hard and soft infrastructure to support the LHI, including upgrades to utilities, road networks, commercial facilities, residential development, and institutions such as schools, hospitals, recreational facilities, and the like.

These elements should be seen as components of an overall phased development strategy that requires coordinated planning and implementation.

III. Statement of Work

It is anticipated that a consulting firm will be hired to undertake this project, hereafter referred to as “Consultant”. The Consultant shall prepare a Market Analysis and Master Plan for the Jamaica Logistics Hub that addresses each of the eight tasks described in this Statement of Work. The Consultant shall make clear which personnel it is assigning to each task, as well as the specific methodologies, activities, and expected duration of each task.

When undertaking the Market Analysis and Master Plan, the Consultant shall remain cognizant of the following important factors, and their associated potential impacts on the Jamaica Logistics Hub. Previous studies and existing development plans should be referenced and reflected in the work of the Consultant:

- Disparate development plans for key infrastructure upgrades, including ports, airports, SEZs, road, rail, power, water, wastewater treatment, and telecommunications. Particularly, sea port and airport expansions and upgrades at the Kingston Cargo Terminal, Kingston Wharves, and Norman Manley International Airport, including any industrial zones planned adjacent to port facilities;
- Individual development plans for metropolitan areas and parishes surrounding the Logistics Hub;
- Plans by China Harbour Engineering Company (CHEC) to develop a port and associated industrial zones in the Portland Bight area;
- The SEZ Policy, and SEZ legal framework currently being drafted;
- The PPP Policy;
- The Feasibility Study for the Caymanas Special Economic Zone, conducted concurrently with the Logistics Hub Market Analysis and Master Plan;
- Plans by other countries in the Caribbean basin to position themselves as transshipment hubs.
- Precursor studies and industry analysis of industry clusters targeted for special economic zones.

The Consultant shall also review and reference previous studies that examined Jamaica’s competitiveness and potential to attract transshipment and logistics investments. A

precursor benchmarking framework analysis was commissioned with the support of the Inter-American Development Bank (IDB) to evaluate Jamaica's competitive positioning within the region. It includes an industry analysis to identify target sectors as likely candidates for investment. The Consultant will also review and access international studies and sources of information that are relevant to the assignment. The GOJ will set up a Data Room to provide access to bidding firms to existing and current studies on the Logistics Hub Initiative and its various components.

The Consultant shall undertake the Jamaica Logistics Hub Market Analysis and Master Plan in two phases. Upon completion of Phase I, the Consultant shall submit a written report and oral presentation to the Ministry of Industry, Investment, and Trade (MIIC), and other important stakeholders determined by MIIC. Phase I (Tasks 1 through 5) of the study should be implemented within a period of four months, and Phase II (Tasks 6 through 8) should be implemented within a period of eight months. Upon completion of Phase II, the Consultant shall submit a final written report and final oral presentation to MIIC and other designated stakeholders.

PHASE I

Phase I of the project will provide the necessary situational and economic analyses to inform the Logistics Hub Master Plan in Phase II. The Consultant shall consider the geographical scope of the project to include the entire country of Jamaica, with a particular focus on areas key to creating a Logistics Hub. Phase I shall consist of a Market Analysis of Jamaica as a Logistics Hub. Deliverables shall include: a) a written report submitted to MIIC containing the findings of Phase I, including the following; and b) an oral presentation given to MIIC and other relevant stakeholders on the key findings of the Jamaica Logistics Hub Market Analysis. Individual task deliverables, as described below, shall each constitute a separate chapter of the written report.

The following tasks are expected to be completed as part of the Market Analysis:

TASK 1: Vision for the Jamaica Logistics Hub

The Consultant shall conduct meetings with the Ministry of Industry, Investment, and Commerce (MIIC) and other relevant stakeholders agree upon a common vision for the Jamaica Logistics Hub. This will serve as a starting point for the Consultant, who will be tasked with recommending how to best make that vision feasible.

Task 1 Deliverable: A statement on the vision for the Jamaica Logistics Hub, as agreed upon with MIIC, and an agreed upon schedule of interim briefings to MIIC throughout the course of the study.

TASK 2: Analyze Cargo Flows

The Consultant shall review surface and air cargo flows and market dynamics of Caribbean and international maritime and aviation cargo transportation. The Consultant shall evaluate the factors necessary for turning Jamaica into a regional transshipment and

logistics hub. The analysis should draw upon market studies already completed by the government of Jamaica, as well as the Consultant’s knowledge and original research conducted for this study. The transportation assessment shall include the following:

5. Analysis of sea and air cargo flows through the Caribbean, and from Europe and Asia to the Western Hemisphere;
6. Potential ways in which the expansion of the Panama Canal might trigger a shift in cargo shipment patterns in the Western Hemisphere, and Caribbean in particular;
7. Analysis of potential regional competition from Dominican Republic, Cuba, Panama, Costa Rica, Colombia, Trinidad and Tobago, Bahamas, and others;
8. State of air, road, rail, and sea cargo transportation networks that serve the primary areas considered for the Logistics Hub, namely the Kingston Container Terminal, Kingston Wharves, Norman Manley International Airport, Goat Island/Portland Bight areas, and Vernamfield;
9. Assessment Customs performance as it relates to cargo shipments and potential logistics and product distribution activities in Jamaica;
10. Analyze bottlenecks to multi-modal transport in Jamaica;
11. Detailed traffic forecast for Jamaica that includes international cargo transport and supply chain management activities based on the expansion of the Panama Canal, addition of a Chinese-funded canal across Nicaragua, and other cargo transportation developments and trends. The forecast should include liquid and dry bulk freight, containerized cargo, air freight, cruise traffic, and associated and complementary logistics operations.
12. Recommendations for Jamaica to leverage itself as a transshipment hub.

Task 2 Deliverable: A transportation assessment that includes: a) cargo flows and shipment patterns—current and potential new; b) state of Jamaican cargo transportation networks and systems that serve proposed Logistics Hub areas; and c) detailed cargo traffic forecast for Jamaica; and d) recommendations for improving transportation networks for the benefit of the Logistics Hub and to best poise Jamaica as a regional logistics hub.

Task 3: Review and Assess Existing and Pipeline Projects

The Consultant shall aggregate and analyze the strategic development plans of the range of government ministries, departments and agencies and private sector entities that impact the Jamaica Logistics Hub. The Consultant shall evaluate existing projects to identify unnecessary components, key missing components, and critical success factors.

1. The Consultant shall review existing infrastructure projects already underway or in the pipeline, which contribute to the development of a Logistics Hub. These include, but are not limited to:
 - a. Dredging of the shipping channel in Kingston Harbour and other harbors;
 - b. Private concession of the Kingston Container Terminal (KCT);
 - c. Development of the Total Logistics Facility at Kingston Wharves terminal;

- d. Feasibility study for the development of the Caymanas Special Economic Zone (CSEZ), and other proposed SEZs throughout Jamaica;
 - e. Development of ship repair and ship recycling facilities;
 - f. The development of a liquid bulk port in Cow Bay and other sites;
 - g. The expansion of Port Esquivel and other out ports;
 - h. Re-development of Vernamfield Aerodrome as a long-haul passenger and cargo facility, sea-air cargo hub, aviation training school, and maintenance repair and overhaul facility;
 - i. Expansion of Jamaica's existing international airports;
 - j. The North-South Highway, Highway 2000, and planned upgrades to main roads and parish council roads in and around the vicinity of the primary Logistic Hub locations;
 - k. Development of a port and industrial zones by China Harbour at Goat Island and Portland Bight Protected Area;
 - l. Planned upgrades to electricity, water and wastewater treatment, and telecommunications networks;
2. The Consultant shall assess Jamaica's existing logistics infrastructure relevant to the Logistics Hub, including but not limited to: existing maritime, air, free zones, road, rail, utilities, and digital infrastructure.

Task 3 Deliverable: Review of projects, and analysis of what additional projects are required by the Logistics Hub to meet demand. Assess adequacy of supporting infrastructure and utilities.

Task 4: Benchmark Transshipment and Logistics Competitiveness

The Consultant shall analyze the competitive position of Jamaica as a cargo transshipment and logistics hub. The benchmarked criteria should mirror the requirements corporate investors in the logistics, manufacturing, and service sectors use to select new corporate locations. This includes, but is not limited to:

1. Costs of air and surface cargo transportation, and shipment times;
2. Port fees and efficiency of port operations;
3. Size and quality of port facilities—number of berths, cranes, size of container yard, etc.
4. Shipping lines that call at the port, and frequency of calls;
5. Capacity of port berths;
6. Airlines (passenger and cargo) with regularly scheduled flights to airport;
7. Capacity of airport facilities—gates, runway lengths, etc.
8. Customs fees, and efficiency of customs;
9. Availability and cost (ie. lease price) of serviced land in logistics zones adjacent to port;
10. Availability and cost (ie. lease price) serviced industrial land outside the primary port area;
11. Costs of utilities—water, power, waste water treatment, telecommunications, and reliability of utilities;

12. Price of labor in various employment categories—unskilled, skilled, technical, managerial;
13. Cost and quality of living, including safety and access to social infrastructure—international schools, hospitals, recreational areas, etc;
14. Business incentives—fiscal and others.

The Consultant shall benchmark the greater Kinston area against the following locations (and others recommended by MIIC or the Consultant), which are competing with Jamaica to attract transshipment and logistics investments:

1. Cartagena (Colombia);
2. Colón (Panama);
3. Limón Moín (Costa Rica);
4. Port of Spain (Trinidad and Tobago);
5. Mariel (Cuba);
6. Caucedo (Dominican Republic);
7. Freeport (Bahamas).

Task 4 Deliverable: An analysis that compares Jamaica to other countries that are competing for Caribbean and global transshipment and logistics business. Based on this analysis define the Jamaica Logistics Hub’s competitive position in the future global transshipment and logistics, and the types of policies, infrastructure, and facilities that the country requires to be competitive in attracting transshipment and logistics activities..

Task 5: Analyze Industries

The Consultant shall conduct an industry analysis of industry sectors that could benefit from the advantages of locating in Jamaica’s Logistics Hub. This analysis should take into account the Competitiveness Benchmarking exercise (Task 4), considering the trade and investment flows to other locations that are also competing for global transshipment and logistics investments, namely Panama, Colombia, Dominican Republic, Cuba, Bahamas, Costa Rica, and Trinidad and Tobago. The Consultant shall also conduct a survey of companies in various industries in order to understand investment needs, and understand the typical profile of firms in each industry—employment, land and facility requirements, utility usage. The goal is to identify the most promising sectors, sub-sectors and business functions as potential targets for Jamaica’s Global Logistics Hub. This should entail the following:

1. Conduct investment trend analysis, highlighting overall volume of investment in a range of industry sectors—manufacturing, logistics, ICT, etc.—in Jamaica and competing locations over a span of five or more years;
2. Conduct trade flow analysis, highlighting import and export volumes in a range of industry sectors in Jamaica and competing locations over a span of five or more;
3. Consult with local and international investors in Jamaica on current sector strengths, weaknesses, opportunities, threats, and need for improvements, particularly with regard to logistics and transshipment-related activities;

4. Analyze the existing policy, legislative, and regulatory frameworks, including labor market policies and human resources;
5. Identify industry sectors and sub-sectors with the most potential for targeting to the Jamaica Logistics Hub. Include sectors that Jamaica currently lacks, but must promote in order to have a successful Logistics Hub;
6. Create a demand forecast for the number of companies related to logistics and transshipment likely to locate in the Logistics Hub areas over a period of 15 years. The forecast shall include number and types of firms, and associated land, facilities, utilities, and employment requirements. Develop at least two different demand forecast scenarios, given the level of uncertainty on how the market will develop.
7. Make recommendations for improving the competitiveness of Jamaica Logistics Hub in target sectors, including how best to ensure industry cluster and value chain development, achieving benefits through economies of scale, business-to-business linkages, and technology transfer;
8. Specify the value proposition of the Jamaica Logistics Hub to potential investors and develop marketing recommendations.

Task 5 Deliverables: Identify the industry sectors with most potential, which should be targeted for locating within the Logistics Hub areas. Profiles of typical firms in each target sector to show number of employees, land and built space requirements, utility requirements, etc. Demand forecast for logistics and transshipment-related activities in the Logistics Hub. Recommendations for improving the competitiveness of the Logistics Hub.

PHASE II

Phase II shall constitute the second half of the study, and consist of a Master Plan and 15-year development plan for the Jamaica Logistics Hub. It will draw heavily upon the analysis in Phase I of the study. The geographical scope of the analysis in Phase II shall include the primary Logistics Hub areas throughout Jamaica identified in Phase I of the study.

Deliverables shall include: a) a written draft report submitted to the Logistics Task Force of MIIC containing Phases I and II of the study; and b) an oral presentation given to MIIC and other relevant stakeholders on the Master Plan for the Jamaica Logistics Hub; c) a final report encompassing Phases I and II, based on comments received from MIIC and other stakeholders; and d) an Executive Summary of the entire study.

Task 6: Create Master Plan for the Jamaica Logistics Hub

The Master Plan will focus development in the areas of greatest importance to the Logistics Hub throughout Jamaica. It should take into account the planned expansions of ports and airports, and planned development of SEZs to help spur logistics, manufacturing, and service industry clusters and value chains. The Master Plan should proceed from a vision of future possibilities for the Logistics Hub, establish the overall character, extent, and location of various land uses, and encourage construction of various types throughout the identified Logistics Hub areas.

The Master Plan should include sustainable and “green” solutions wherever possible and feasible, and the Consultant shall make specific note of these. This includes, but is not limited to energy efficiency, green building guidelines, efficient uses of water and secondary uses of waste water, etc.

The Master Plan should include the following elements:

9. A value proposition for the Logistics Hub Initiative, based on the analysis conducted in Phase I of the study, and in line with relevant issues and stated goals and visions of MIIC and other primary stakeholders;
10. Land use plan(s) that cover the primary areas that constitute the Jamaica Logistics Hub. The consultant should dedicate specific areas to port and airport operations, logistics, industrial, services, institutional, residential (including relocation), and primary and secondary roadways. The Land Use Plan should integrate the objectives of city and parish development policies and plan to maximize harmony between the Logistics Hub developments and fenceline communities.
11. Guidelines on rehabilitating brownfield spaces—existing industrial areas, airports, ports, residential areas—to develop or incorporate new logistics zones, new industrial zones, new or expanded ports and airports, and other uses deemed relevant by the Consultant. The study should also provide recommended measure to ensure the best utilization of existing facilities.
12. Recommendations for integrating existing and planned infrastructure projects into the proposed Land Use Plan, and recommended alterations to those existing plans;
13. A Development Phasing Plan detailing how the Logistics Hub should be developed over time.

Task 6 Deliverables: The master plan shall include a value proposition, land use plan(s), development phasing plan, and guidelines for brownfield spaces and for integrating existing projects and plans into the Logistics Hub Master Plan. A set of infrastructure drawings and land use and phasing maps shall also be included. Concept drawings should be produced at a size that can be easily reduced and included in the final report.

TASK 7: Gap Analysis

The Consultant shall conduct a gap analysis to describe the infrastructure and planning that will be required by the Logistics Hub as laid out in the Land Use Plan in Task 6, and identify any planning and infrastructure gaps. This shall include:

1. Existing zoning ordinances and planning controls that could impede Logistics Hub developments;
2. Ways in which the policy and legislative framework varies from that which would be required to support the Logistics Hub;
3. Maritime infrastructure;
4. Aviation infrastructure;
5. Industrial infrastructure, including that appropriate for logistics, manufacturing, services, and other industries identified in Phase I of the study;

6. Utility infrastructure serving the primary Logistics Hub areas—power, water, waste water treatment, telecommunications—appropriate for industries identified in Phase I of the study;
7. Road and rail infrastructure—including widening and rerouting of roadways—necessary for developing the Logistics Hub as per the Land Use Plan in Task 6;
8. Commercial and social infrastructure—housing, educational institutions, recreational facilities, etc.—required to support the enhanced economic activity of the Logistics Hub;
9. Any other areas the Consultant determines to be relevant.

Task 7 Deliverables: A gap analysis that examines the above points, and identifies: a) infrastructure and planning requirements of the Logistics Hub as envisioned in the Land Use Plan in Task 6; b) government infrastructure enhancements currently underway or in the pipeline that help meet the Logistics Hub requirements; and c) infrastructure enhancements that are currently not planned by the GOJ, but which are necessary for the Logistics Hub.

TASK 8: Prepare Logistics Hub Development Strategy

The Consultant shall prepare a Development Strategy that includes a phased roll-out of the Jamaica Logistics Hub. The Development Strategy should include:

1. Recommendations and criteria to make the Logistics Hub viable from business, legal, institutional, organizational, environmental, and financial perspectives;
2. Specification of various nodal projects based on the Master Plan, which can be separately tendered for development by the private sector, or through a PPP.
3. Project-specific action plans, including strategies for packaging the individual Logistics Hub projects for private investment and/or PPP, and full-scale implementation;
4. Recommendations for short, medium, and long-term strategies to aid in structuring the deals and creating bankable projects within the Logistics Hub;
5. Recommended infrastructure upgrades required for each identified Logistics Hub project, and estimated costs to the GOJ for such upgrades.
6. Identify environmental and social assessment needs, and recommend any necessary future assessments;
7. Detailed implementation timelines and critical path the GOJ must take to ensure development of the necessary projects to make the Logistics Hub a success;
8. Create a market outreach program to identify best-in-class investors for the various projects identified for the Logistics Hub. Recommend means of engagement for private sector partners to develop the various components of the Logistics Hub.

Task 8 Deliverables: A Logistics Hub Development Strategy that contains the above elements.

IV. Stakeholder Engagement

The Consultant shall engage in monthly briefings with the Logistics Task Force of MIIC throughout Phases I and II of the project. The Consultant shall also adhere to the following:

Stakeholder Engagement	Timing
Agree on Common Vision for Logistics Hub	Task 1, beginning of project
Brief oral updates between Consultant and Logistics Task Force of MIIC	Monthly
Oral presentation of Phase I results	4 months after project start-up
Oral presentation of key findings and feedback from stakeholders	After 12 months

V. Schedule of Deliverables

The Consultant shall prepare deliverables according to the following suggested schedule. The Logistics Task Force of MIIC shall provide timely feedback to the Consultant within two weeks of submission of each deliverable.

Deliverables	Timing
Inception Report	One month after start-up
Oral presentation of Part I results	4 months after start-up
Draft Phase I report	4 months after start-up
Oral presentation of key findings and recommendations from feasibility study	12 months after start-up
Draft report of Parts I and II	12 months after start-up
Executive Summary of Parts I and II	12 months after start-up
Master plan drawings, infrastructure upgrade cost estimates	12 months after start-up
Final Master Plan and Final Report, based on feedback from stakeholders, including all maps and drawings	14 months after start-up

VI. Consultant Requirements

The Consultant is expected to meet the following requirements:

1. Significant global experience working on logistics, industrial infrastructure, and transportation infrastructure;
2. Experience in urban and industrial planning and civil engineering;
3. Global experience advising companies on location strategies and decisions, and proven ability of leveraging insight gained from this experience for advising governments on economic development and inward investment strategies.

4. Significant global experience working with governments and economic development agencies on competitiveness and economic development strategies, and ability to draw upon international best practices;
5. Ability to start work quickly based on uniquely robust and customizable methodology and toolset.
6. Local Jamaican team members with working knowledge of the Jamaica Logistics Hub Initiative.

VII. Team Composition

The Consultant shall form a team of experts that includes, at minimum, the following. The Consultant can add other positions as necessary to undertake the terms of reference of the feasibility study. The Consultant shall designate one team member as the Team Leader, who will manage the team and act as the primary liaison between the consulting team and GoJ. The Consultant is encouraged to partner with Jamaican individual consultant(s) and/or firm(s).

- i) Economist (Masters Degree in economics, business, or similar) with at least 10 years relevant experience;
- ii) Urban Planner (Masters Degree in Urban Planning or related discipline) with at least 10 years relevant experience;
- v) Civil/Structural Engineer(s) (Degree in civil engineering) with at least 5 years relevant experience;
- vi) Engineering support staff member(s) such as CAD drafter(s), surveyor(s), etc.

VIII. Project Coordination

The Consultant will report directly to the Logistics Task Force of the Ministry of Industry, Investment, and Commerce (MIIC). The Consultant shall also work closely with the following core stakeholders:

- Planning Institute of Jamaica (PIOJ), an agency of the Ministry of Finance and Planning responsible for long-term infrastructure planning in Jamaica;
- The Port Authority of Jamaica (PAOJ), which is overseeing the public divestment of the Kingston Container Terminal to a private concessionaire;
- The Jamaica Civil Aviation Authority (JCAA), which cooperates with other agencies in the facilitation, provision, and regulation of a reliable and safe Air Transport System.
- Development Bank of Jamaica (DBJ), which is in charge of public-private partnerships and divestments, and which manages the PPF (Project Preparation Facility) Management Board under which World Bank funding has been approved for this study (under the Foundations for Competitiveness and Growth Project);
- Jamaica Promotions Corporation (JAMPRO), an agency of MIIC, which promotes business opportunities in export and investment to the local and international private sector.

Finally, the Consultant will also work closely with all other public and private sector stakeholders, as appropriate, in undertaking the work of this project.

Annex 5: Developer Consultation Questionnaire

The government of Jamaica need not wait until it issues an RFP to begin familiarizing itself with the private development community in Jamaican and Caribbean region. This questionnaire can be used to help facilitate early consultations with SEZ developers.

Developer Consultation Questionnaire

Respondent's name:	
Position:	
Company name:	
Address:	
Telephone:	
E-Mail:	
Interviewed by:	
Date and Time:	

DEVELOPER COMPANY INFORMATION

History of Company:

Company activities (real estate, SEZs, manufacturing, holding company, etc.):

Size and type Investment (in US dollars):

Headquarter Location:

Names and places of SEZs, industrial parks, or other real estate they have developed/operated:

Names of joint venture partners with whom they develop/operate SEZs, industrial parks, or other real estate:

SEZ DEVELOPER TRENDS

What is the current state of SEZ/industrial park development in the Caribbean?

What trends have you seen in SEZ/industrial park development in the region?

What country or markets currently look attractive to invest in as a developer? Why?

Has the planned expansion of the Panama Canal changed your mind about where, how, or when to invest as an SEZ developer in the Caribbean or Latin America? Explain.

JAMAICA

Would Jamaica be an attractive place for you to develop and/or operate an SEZ? Why or why not?

Specifically, would the Caymanas SEZ be an attractive investment to develop and/or operate an SEZ? Why or why not?

What conditions would need to be in place in Jamaica for you to consider investing as a developer?

What would your major concerns be about investing in the Caymanas SEZ?

OTHER

What is your overall reaction to the CSEZ project?

What would you suggest to enhance the attractiveness of the CSEZ from a developer's point of view?

What could be the main hurdles of development?

What are the risks of this project, as you perceive them as a developer?

Have you ever gone through an RFP-based developer selection process? (The alternatives are 1) conventional price-based public works style procurement; or 2) Non-competitive direct negotiation deal.)

Annex 6: Persons Consulted

The following persons were consulted during the research and preparation of this report.

World Bank

Ms. Cecilia Briseño-Garmendia, Lead Economist, Transport and ICT
 Ms. Cristina Maria Ladeira Ferrera, Public-Private Infrastructure Advisory Facility
 Mr. Tom Vis, Task Team Leader, Foundations for Competitiveness and Growth (FCG) Project
 Mr. Gökhan Akıncı, Lead Investment Policy Advisor

International Monetary Fund

Mr. Jan Kees Martijn, Division Chief, Western Hemisphere Department

Ministry of Industry, Investment, and Commerce

Mr. Anthony Hylton, Minister of Industry, Investment and Commerce
 Dr. Eric Deans, Chairman, Logistics Task Force and Free Zone Council
 Mr. Stephen Wedderburn, Chief Technical Director
 Mr. Kelvin K. Kerr, Director, Pricing and Supplies
 Mr. Sanvia Martin-Bailey, Project Planner Logistics Hub Secretariat

Ministry of Science, Technology, Energy, and Mining

Mr. Julian J. Robinson, Minister of State
 Mr. Leroy Cooke, Head, E-government

Caymanas SEZ Enterprise Team

Mr. Vincent Lawrence, Chairman
 Mr. Bill Clark
 Mr. Joe Matalon
 Mr. Clifford Spencer
 Mr. Ricardo Munroe
 Ms. Denise Arana
 Mr. Reginald Nugent

Planning Institute of Jamaica

Mr. Richard Lumsden, Deputy Director General, Economic Planning and Policy Logistics
 Mr. Joseph Cox, Executive Director, Growth Secretariat
 Ms. Monique Harper-Griffiths, Procurement Specialist, FCG Project
 Ms. Winsome Miller, Manager, Multilateral Financing Programme
 Mr. Aubrey Garcia, Project Manager, FCG Project

Development Bank of Jamaica

Mr. Ricardo Munroe Manager, Public-Private Partnerships and Privatisation
 Ms. Tracy-Ann McIntosh, Manager, Loan Origination, Loan Origination and Portfolio Management

SEZ Steering Committee

Ms. Patricia Francis, Chair
 Ms. Latoya Richards Franklin, Economist

Urban Development Corporation

Mr. Robert Stephens, Deputy General Manager, Subsidiaries Management and Revenue Generation
 Mr. Lorna Perkins, Deputy General Manager, Development Planning and Management Division
 Mr. Imran Forbes, Research Unit
 Mr. Ronald Brown, Chief Planner
 Ms. Sharon McIntosh Wilson, Senior Planner

Factories Corporation of Jamaica

Mr. Clive Fagan, Chairman
Mr. Clive A. Greyson, Managing Director
Mr. Robert Gray, Chief Engineer

Jamaica Customs

Mr. Richard Reese, Commissioner of
Customs
Mr. Kirk Benjamin, Director, Special Projects

Jamaica Public Service Company

Mr. Rhys D. Campbell, Head, Economic
Development
Ms. Dionne Nugent, Head of Department,
Generation—Special Projects

National Water Commission

Ms. Jhanelle Simpson, Systems Planning
Engineer
Mr. Keon Hinds, Regulatory Water Supply
Manager

Water Resources Authority

Mr. Basil Fernandez, Managing Director

National Works Agency

Mr. E.G. Hunter, Chief Executive Officer

**National Environment and Planning
Agency**

Mr. Peter Knight, Chief Executive Officer

Office of Utilities Regulation

Mr. Leighton G. Hamilton, Director-
Information Technology

Port Authority of Jamaica

Prof. Gordon Shirley, President and Chief
Executive Officer
Capt. Hopeton Delisser Vice President,
Harbours & Port Services

**Jamaica Promotions Corporation
(JAMPRO)**

Ms. Shullette Cox, Vice President, Corporate
Development and Competitiveness
Mr Chad Gordon, Manager, Knowledge
Services
Ms. Tastey Blackman

Mr. Ricardo Durrant
Ms. Marjorie Straw

KCT Services Limited

Mr. Adrian Brown, Corporate
Communications Manager

Kingston Wharves, Ltd.

Mr. Grantley St. J. Stephenson, Chairman &
Chief Executive Officer
Mr. Mark Williams, Chief Operating Officer
Ms. Clover Moodie, Group Chief Financial
Officer

Kingston Free Zone

Ms. Beverly E. Lee, Operations/Customer
Relations Manager

Garmex Free Zone

Ms. Sharon Phillips

Montego Bay Free Zone

Ms. Gloria Henry, Assistant Vice President,
Operations and Customer Relations

The Jamaica Chamber of Commerce

Mr. Trevor Fearon, Chief Executive Officer
Mr. Warren McDonald, President
Mr. Oliver Chen, 1st Vice President

Jamaica Exporters Association

Ms. Marjory Kennedy, President
Mr. Claude Fletcher, General Manager

Private Sector of Jamaica (PSOJ)

Various members

e-Learning Jamaica Company Ltd.

Mr. Izett McCalla, Senior ICT Specialist

CUNA Mutual Group

Mr. David P. Wan, Vice President, Sales & Product Development

Associated Manufacturers Ltd.

Mr. Winston Stona, Busha Brown and Walkers Wood Foods

Island Food Packers

Mr. Michael Ming, Director

BNRS Holdings

Mr. Paul Lewis, Manager, Sales and Marketing

Barnett Limited

Mr. Mark Kerr-Jarrett, Managing Director

Pan American Investment Trust Ltd.

Mr. Stephen Facey, Chairman and CEO

AllianceOne

Mr. Jake Becker, General Manager

Itel-BPO Solutions

Mr. Yoni Epstein, CEO

UNCTAD

Mr. Mark Konald, UNCTAD Consultant to JAMPRO on issues of sustainability

National Free Zone Council, Dominican Republic

Mr. Daniel Liranzo, Executive Sub-Director

PIISA Industrial Park, Dominican Republic

Mr. José Tomas Contreras, Executive Vice President

American Park Free Zone, El Salvador

Mr. Edwin Escobar

Coyol Parque Empresarial y Zona Franca, Costa Rica

Mr. Carlos Wong, Director General

RZA, Costa Rica



Mr. Rodrigo Zapata, CEO

U.S. Foreign-Trade Zones Board

Ms. Liz Whiteman, Acting Executive Secretary



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